



Weekly Report

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The new China fund: still not very clear yet...

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The Administration, true to form, continues to surprise us. It recently announced a number of new agreements made with China, among them the creation of a new fund for US\$ 20.0 billion to be paid over 10 years with oil. The key questions here are: Does PDVSA and the country lose here? and What all is included in this deal? This report will try to answer these questions.

Background

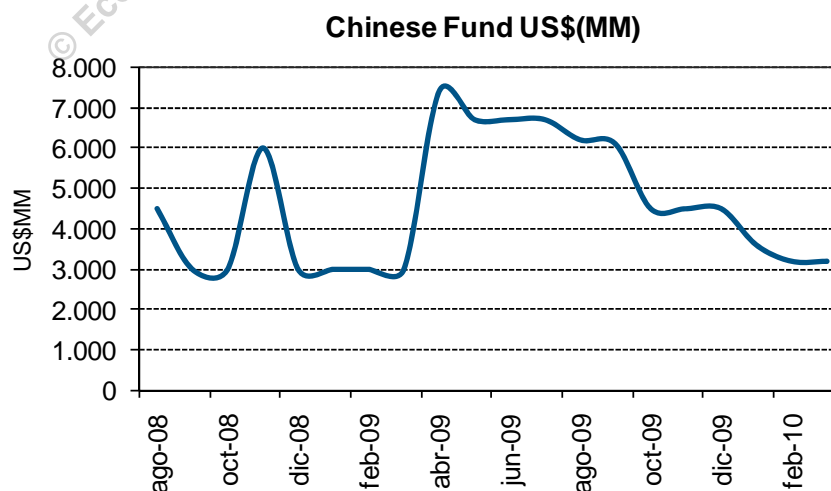
The first thing we have to point out is that in 2008, China and Venezuela created a Bi-national Chinese-Venezuelan Fund which rules established the following: first, that the entity responsible for the loan is the Development Bank (Bandes); second, that Venezuela is has to deposit half as much as what China deposits into the fund; third, that payment for the amount China contributes to the fund will be made with oil sent by PDVSA, which in turn will discount said amount of oil from the fiscal contribution it has to make to the Republic; and fourth, that the fund will function like a multilateral loan which establishes the agreement that the funds earmarked for specific projects may not be diverted and used in other areas.



China has deposited US\$ 8.0 billion into the Fund, this means that Venezuela has had to match this with deposits equaling US\$ 4.0 billion, which it has done so with transfers from FONDEN. The Bi-national Fund finances some 50 projects. 66.6% of the financial resources of this Fund are being used to finance strategic projects that have to do with light and heavy industry, infrastructure, social participation, and developing the electric power grid.

Since January 2010, the Administration has been showing signs of wanting to increase the amount in the Fund by US\$ 6.0 billion (US\$ 4.0 billion deposited by China and US\$ 2.0 billion by Venezuela). These talks are moving right along and it's expected that by the fourth quarter of this year, both parties will be making new deposits into the Fund, once the Administration submits its reports as to how the ongoing projects are advancing and it submits its chronogram of the new projects it will finance. It's important to point out that in order to be able to go ahead with the increase in funds being deposited into the Fund, the National Assembly just finished modifying the BANDES Law in order to increase its capacity to assimilate debt.

According to our information at **Ecoanalítica**, at the close of the month of March 2010, the balance of the Bi-national Fund was at US\$ 3.2 billion, and in order to make payment for China's contributions to the Fund, PDVSA has to send around 80,000 barrels a day to China.



Source: Ecoanalítica

A question of Methodology

A number of local and international analysts have expressed their concern about the reasons why the Bi-national Fund debt figures (the debt owed to China) do not appear on the Central Bank of Venezuela (BCV), PDVSA, or



Ministry of Finance balance sheets. The reason has to do with methodology. Since the Bi-national Fund is managed by Banderas, and according to the IMF manual on domestic accounts states that Restricted Public Sector accounts do not include public finance companies, such as Banderas, therefore the figures reflecting the debt to China are reflected in the development bank's balance figures.

Super Fund

The Administration, not satisfied with this fund, has managed to create another fund with China for an amount of US\$ 20.0 billion which will also be paid with oil over ten years. And according the information we have been able to gather, the entity responsible for payment will be PDVSA.

With respect to this new fund, there's still no word as to the number of projects that will be involved, or their nature, or amount that will be financed by the fund. The draft of the document which outlines the fund's parameters states that the resources will mainly be earmarked for the oil industry, petrochemical and electric power grid development. It's clear that China is working towards guaranteeing its oil supply in the medium and long term, in average, the international energy agencies estimate that the annual increase in the China's crude oil demand is about 0.8 mb/d, which represents approximately 80% of the estimated of the global demand. This is why it agrees to these funds and even looks to increase their amounts.

Interesting details

The way most people believe this new Fund works is that China transfers its resources into the fund and the Administration can pretty much use these resources for whatever it wants. The working-draft that outlines the parameter of the fund makes it clear that this is not the case. The new fund will be more like a trust fund between the Central Bank of Venezuela and the Development Bank of China and resources will only be liquidated for projects that are presented and approved by both parties. This is a big difference compared to if the Administration or PDVSA had raised the same amount of resources by issuing bonds for example, then there would have been no restrictions as to how they decided to use said resources. So, it's important to keep in mind that these resources from the new Fund will not just be sitting there, available for the Administration or PDVSA to use as it wishes.

So in order for resources to be liquidated from this Fund, projects have to be introduced, with their corresponding project development chronogram, and approved by this entity. So, at the time of the release of this Report, this new Fund is still being worked on and it has yet to be established.



Is the Fund in Venezuela's best interest?

This is a very controversial question. To date, public opinion reflected in the media is against the new fund, stating that it is a bad business deal for the Republic and for PDVSA. At *Ecoanalítica*, we feel that in principle, this opinion is a bit premature. We say this because we still don't have any relevant information regarding the financial details governing the new fund in order to analyze the proposal from an economic point of view. With the limited amount of information that we do have, this is our opinion.

Precedent: China's agreement with Ecuador

Though the current Administration's agreements and contracts signed with international entities and governments continue to be anything but transparent and forthcoming, there is a similar case to this one facing Venezuela that is very close to home, both in terms of regional similarities as well as being a relative current event. We are referring to China's agreement with Ecuador. In July 2009, Ecuador received US\$ 1.0 billion from China to be paid for in oil. We would like to point out the conditions governing this agreement, which could well be very similar in some points to the conditions governing Venezuela's agreement with China.

In Ecuador's case, Petroecuador signed the purchase-sale contract with China's state-run oil company Petrochina International Company Limited, for two years, stipulating monthly deliveries of 2.88 million barrels of crude oil (for a total of 69.1 million barrels), with an upfront payment of US\$1.0 billion by Petrochina. The payment equaled approximately 28% the cost of each barrel of oil negotiated. The other 72% will continue to come into the fiscal coffers. The cash price of the crude oil is calculated based on the market price of the date the oil is exported. This is a key point in determining the financial viability of the agreement and whether the deal is favorable or not in Venezuela's case.

The authorities in Ecuador made it very clear that the US\$1.0 billion that Petrochina paid upfront to Ecuador for the 69.12 million barrels of crude oil only equaled 28% of the cost of each barrel of crude oil negotiated. The other 72% still has to come in. An added element of the deal is that Ecuador has to pay 7.25% over the value of the oil sold as a kind of discount in the spirit that both parties should come out ahead in the deal.

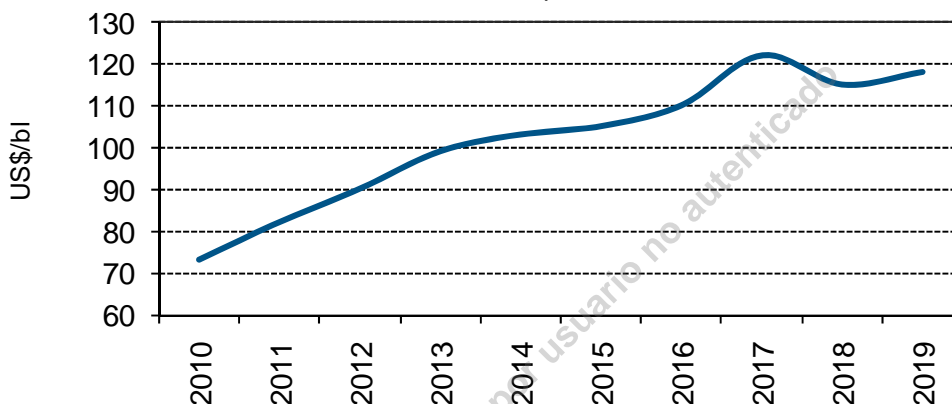
How could the Venezuelan deal end-up?

At *Ecoanalítica*, we tried to duplicate the conditions of the Ecuador loan and apply it to the Venezuelan case. According to reliable sources, the structure of the Venezuelan loan should be similar to the Ecuadorian case. So, we are assuming that the cost of a barrel of oil negotiated is at 54 US\$/bl and that the rest will go to PDVSA coffers. Then we projected the price of crude oil for the next ten years, which will be key in determining



whether the deal is good for Venezuela or not. We admit that attempting such a projection has a very high margin for error, especially when dealing with oil.

Venezuelan Oil Price Forecast US\$/bl



Source: Ecoanalítica

Like the case in Ecuador, we have included the interest rate. The table we have included shows different scenarios and the present net value (PNV) of the operation. Based on an interest rate of 7.75%, similar to the Ecuador case, the PNV is US\$ 24.52 billion, in other words, PDVSA is receiving US\$ 20.0 billion *today* for oil sales valued at US\$ 24.52 billion. From this point of view, it doesn't look like a very good deal financially speaking.

However, if one compares what would happen to PDVSA if it went out and acquired US\$ 20.0 billion in debt in current market conditions (refer to scenarios 3, 4, and 5), one can see that the China loan is preferable.

If PDVSA issues corporate international bonds for a total of US\$20,000 million over the next two years, instead of acquire more debt with the Chinese, the yield it would have to pay to get this funding from international markets should be extremely high, say between 15% and 20%, yields that it had to pay in the recent past. If we use these rates to calculate the NPV of the new Chinese fund, the result is less than U.S. \$ 20,000 million, as shown in the table below.

What are the disadvantages to PDVSA? That it can't dispose of the resources from the China loan however and whenever it wants to. If it acquired debt, it would have full control over those resources.



PDVSA'S SHIPMENTS (100.000 b/d)					
SCENARIO	1	2	3	4	5
NPV (US\$MM)	24,52	22,09	20,20	17,77	14,57
Interest Rate	7.75	10.0	12.0	15.0	20.0
FV (US\$MM)	56,04	64,16	72,58	87,79	122,18

Source: Ecoanalítica

Other implications that come with the Fund

As is always the case in Venezuela, the China Fund issue has a series of implications that go beyond the issue of just creating a bi-national loan mechanism. First, if this Fund does become a reality, and in spite of the fact that this projects could have a slight incident in Pdvsa's investment, then it is not very probable that PDVSA will continue to issue debt. This will affect the supply of foreign currency for the swap-market. So, all eyes are on the Ministry of Planning and Finances, an issue we will deal with in our upcoming Exchange Report.

Second, if the Fund is created, it will indirectly improve PDVSA's cash flow situation, which in turn will increase fiscal pressure on the company. This is our main concern. PDVSA has to improve its efficiency and increase production levels urgently and immediately given the enormous increase in level of debt it is acquiring.

Lastly, this Administration looks to prioritize bilateral borrowing (being Pdvsa the apex), be it with governments or institutions, in detriment to the market. At first glance, this doesn't represent any specially problem. However, this type of borrowing takes place without the public knowing anything about financial conditions being agreed to, and the public is never given a chance to offer its opinion and/or criticize the proceedings. In the case of the market, these types of conditions are always made public and you know that there will always be a balance statement to analyze. In the past (2001 to 2003), the Administration was very active in this type of borrowing, especially with commercial banks. These transactions were carried out at a very high cost. An advantage offered by the exchange control (there had to be at least one) was that it allowed that expensive borrowing to be substituted for one that was cheaper, thereby significantly improving the debt service scenario. Did we learn the lesson?





Economic Tips

Chávez sees the economy shrinking in 2010. This past Sunday, President Chávez indicated that the Venezuelan GDP could shrink for the second consecutive year, thereby contradicting projections made by the government. He continued to say that the latest information showed the economy shrinking during the first quarter 2010. However, these are still preliminary figures with official figures not due to be released until the month of May. The President also said that the situation was nothing to be alarmed about.

More transparency. The International Monetary Fund (IMF) reminded Venezuela that it has not been collaborating with the entity on a regular basis and it recommended that there be more macroeconomic transparency in Venezuela for its own good and for other countries. The main committee of the IMF, the International Monetary Finance Committee, called on all members to submit their economies for an IMF inspection. Venezuela and Argentina refused. This is the first time the committee has ever made such a request.

The deadline is up. The ten day period allowed to publish the reform of the Central Bank of Venezuela Law in the Gaceta Oficial, thereby making it Law has expired. Representative of the National Assembly Finance Committee have informed that the Executive Office has some observations concerning parts of the text. No details were given.

INE registers an increase in the basket. The National Statistics Institute (INE) released the figures of the food basket for the month of March. It's at VEF1,155.10, up by 25.8% nominally compared to 2009 and down in real terms by 1.9%. Compared to last month, the basket increased by 3.7%.

By cities... The INE released the food basket figures broken down by cities. Spearheading the increase in price between February and March were Maracaibo, up by 5.6%; Maracay, up by 5.0%; Caracas, 4.7%; and Valencia 4.0%. Cities that kept below the month to month increase were Ciudad Guayana, only up by 3.6%; Barcelona-Puerto La Cruz, 3.4%; Maturín, 3.2%; Barquisimeto, 2.9%; Mérida, 2.3%; and San Cristóbal, 2.2%.

March unemployment figures... The INE also released unemployment figures for the month of March, with unemployment at 8.7%. The Y/Y unemployment rate is at 1.4%, which represents an increase of 174,114 more people out of work. The month to month unemployment rate was up by only 1,864 more people unemployed.



Formal and Informal sector... According to the INE, for the month of March, the informal sector shrank by 0.5% compared to February settling at 5,043,414 people. This is 69,502 people less than last month. This represents 42.7% of the total number of people working and compared to last year, during the same period, is down by 1.4% or 191,013 people. With respect to the formal sector, it increased by 0.5% compared to the previous month, 35,944 more people working and settled at 6,770,183 people. Compared to the same period last year the formal sector increased by 1.4%.

...by private and public sector. According to the INE, the number of public sector employees increased by 0.5% or 57,860 people during the month of March, and settled at 2,341,789 people. During the last 12 months, the number of public employees has increased by 141,940 people, or 1.3%. The number of people working in the private sector during the month of March dropped by 0.5% or 91,799 people to settle at 9,471,807 people. During the last 12 months the private sector has shrunk by 1.3% or 203,798 people.

Interest rates. The lending interest rate for the second week in April was at 18.8%, up by 163 base points compared to the previous week. Time deposits and savings deposit rates remained steady at 14.5% and 12.6%, respectively.

International reserves. International reserves dropped by 1.9%, going from US\$28.29 billion during the third week in April to US\$27.76 billion during the second week in April. Compared to the same period in 2009, international reserves are down by 3.9%. It's important to point out that by this time last year US\$12.99 billion had already been transferred to the FONDEN, while this year a transfer of US\$2.0 billion is still pending.

Monetary liquidity. Monetary liquidity for the second week in April is down by 0.2% compared to the previous week settling at VEF 240.1 billion. So far this year liquidity is up in nominal terms by 1.8%, and down in real terms by 1.5% compared to the same period last year.

Oil Tips

Pdvsa's 2009 profits down. According to the ministry of energy and oil and president of Pdvsa, Rafael Ramirez, the oil industry obtained nearly US\$8 billion in profits last year, which represents a 17,7% drop compared to 2008, the year in which the Venezuelan oil basket price reached more than US\$120/bl. *"Our situation is perfect. In 1999 we had a US\$14 billion deficit and now we have a US\$5 billion surplus. When we*



took over the company, we had approximately US\$75 billion worth of assets; today, we have US\$145 billion,” Ramirez said.

In spite of the devaluation, Pdvsa paid less in taxes. According to numbers handles at the public finance office, Pdvsa’s contribution in royalties and Income Tax during the first quarter of 2010 was VEF 7.1 billion, being the Venezuelan oil basket’s average price US\$72/bl. During the first quarter of 2009, the state company’s contribution was VEF 7.3 billion with an oil barrel averaging US\$38/bl, thus reporting a quarterly decrease by 2.8%, in nominal terms, and 23.0% in real terms. Pdvsa’s income was expected around VEF 10.1 billion in the nation’s budget, which means Pdvsa’s contribution covered only 70.3% of the planning office’s estimate. However, considering how discretionally Pdvsa manages its income, there is no ruling out a possible increase in the company’s fiscal contribution for the next months.

Ramirez: no bonds to be issued in 2010. In an interview, the president of Pdvsa said there were no bond-issuances planned for this year, although two credit lines would be processed. It was announced in January that the China Development Bank and Portugal’s Banco Espiritu Santo would grant a US\$1.5 billion credit line, in that regard, Ramirez said *“things are moving forward”* and added that conversations were being held with other banks for a second loan. However, the public clerk didn’t specify said loan’s amount.

Only US\$1.5 billion. Regarding Fonden contributions, Ramirez said last week that the contribution to Fonden would be of US\$1.5 billion this year, though he mentioned this number could change. The ministry of energy also commented on his estimations on the oil GDP behavior during the first quarter of 2010, *“we expect a behavior similar to that of 2009, because production levels are being measured. The result should remain stable.”*

Plants to be installed on refineries. Ramirez also mentioned agreements had been signed with Japan for the acquisition of a thermoelectric plant and with China for the purchase of three plants to be installed in the refineries of Jose and Amuay. Each plant has a 300 megawatt capacity and uses coke fuel. Ramirez also said the refinery Isla would be operative by the end of this month and noted the purchase of Refidomisa in Dominican Republic would take place soon.

Three companies for natural gas for vehicles. According to a press release, Venezuela and Argentina are to invest US\$300 million in three mixed companies to be devoted to manufacture natural gas for vehicles’ equipment. Said strategy is aligned with the Government’s efforts to rationalize gasoline use in the local automotive fleet. These companies will have different roles: one to manufacture automobile conversion kits, another one to manufacture cylinders and the third one to manufacture compressors, all to be located in Venezuela.



But it hasn't been successful. The Chavez Administration had planned to begin marketing vehicles using a dual-fuel-system by April 1 of 2009, but so far, the plan has not been successful. According to the *Official Gazette* 38,967, 30% of the new automobiles entering the Venezuelan automotive fleet would have the natural gas system installed, and the intention was to increase that number.

Two fires in 30 days. The catalytic plant of the Cardon refinery (with a refining capacity of 104,000 barrels per day) reported another fire in less than four weeks. In a press release, Pdvsa assured the refining complex's operations were guaranteed as well as the fulfillment of all commitments with both the domestic and foreign markets, since there are enough inventories in the refining circuit. It was then reported that the plant's recovery and rehabilitation period would be of 5 to 7 days.

Complaints of corruption in the oil sector. According to the newspaper *El Nuevo Herald*, three US firms operating in the national oil sector have either been investigated and fined, or are currently under investigation by the Department of Justice and the US Securities and Exchange Commission (SEC) for paying bribes to obtain or extend contracts with Venezuelan public entities. In a formal accusation filed at the Texas North District Federal Court against the drilling company Pride International, the SEC established the firm paid over US\$380,000 in bribes to an intermediary representing a Pdvsa official, to extend oil well drilling contracts.

International oil baskets. At New York market's closing time, last Thursday, April 29, the WTI was at US\$84.8/bl showing a 2.0% increase compared to the US\$83.1/bl of the previous Thursday. The Brent increased by 1.6% to reach US\$86.3/bl, compared to US\$85.0/bl of Thursday, April 22.

Local oil basket price. The Venezuelan oil basket price decreased last week, to close at US\$73.7 /bl on Friday April 23, US\$1.7 more/less than the US\$75.4/bl of the previous week. Meanwhile, the basket's annual average increased to US\$71.6/bl.

Business Sector Tips

Cadivi owes US\$2 billion to vehicle assemblers. According to Enrique Gonzalez, president of the Venezuelan Automotive Chamber, Cadivi's debt with Venezuelan vehicle assemblers reaches US\$2 billion. Gonzalez said that due to the delays, several of these companies will need to suspend the assembling process of several models or even shut plants down because they have no more credit line with their manufacturers' headquarters. He also indicated vehicle production and sales are once



again expected to decrease; as a matter of fact, vehicle manufacture dropped by 28.1% during the first quarter of 2010. The projection estimates the assembling of 857,210 units for 2010, one third of the installed capacity.

Another one out of time. The 10-day period for the National Financial System Organic Law to be proclaimed and published in the Official Gazette expired, as set out in Article 214 of the Bolivarian Constitution of Venezuela. According to representatives of the National Assembly's Finance Commission, the Administration has made some remarks about the draft. In this case, about the disappearance of business groups, for which a clarification is requested as to when they shall be dissolved and when they shall not. The approval of the Supreme Court of Justice is also pending in order to grant the degree of Organic Law.

Significant changes in the insurance sector. The Insuring Activity law draft contemplates insurance companies shall have to cover the risks of those sectors the State considers strategic. The National Financial System Law indicates insurance companies need to create policies for agriculture, cooperatives and communities, and the insurance sector's legal framework proposal includes the aforementioned coverage and allows the Venezuelan Government to add new sectors. Said proposal also incorporates solidarity insurance policies. Insurance companies will have to offer special policies to people with a monthly income of up to 25 tax units (VEF 1,625). Said policies need to protect risks such as: diseases,

Another extension. According to the Official Gazette, the rent control measure will be extended for another six months. The joint resolution of the Ministry of Public Works and the Ministry of Commerce becomes effective on April 30. Official Gazette N° 39,407 warns those who do not follow the decision or those who incur in the crimes of usury, speculation or others, which will be penalized according to the Law for the Defense of People in the Access to Goods and Services.

Public banks generate profit. According to a report published by the Banks' Superintendence (Sudeban), Banco Bicentenario had a positive result in March, after two months in red, reporting a profit of VEF 5.1 million. Banco Industrial also reported a positive result, showing signs of recovery, with VEF 10.9 million. Both banks had accumulated losses for 295.2 million.

Portfolio benefits. As to the benefits obtained through the loans' portfolio, we can observe a 49% increase in Banco Bicentenario, going from VEF 294.8 million to VEF 438.5 million between February and March. The increase for Banco Industrial was by 210%, going from VEF 9.9 million to VEF 30.6 million in the same period.





... **A global improvement.** Sudeban's report indicates the global results of the public bank, reporting profits for VEF 250.1 million in March, compared to February which reported a VEF 180.2 loss.

Possible embezzlement of funds. Public Ministry Attorneys are carrying out investigations at Planta Centro, due to alleged embezzlement of funds, according to electric sector union representatives. Juan Polanco, secretary of finance of the Carabobo State's Professional Union of Electricians and the Like, says there was an unnecessary purchase of a series of equipment and machinery which are not being used and are kept in a warehouse exposed to damage.

Franchises complicated due to shortages. According to the Venezuelan Chamber of Franchises (Profranquicias), the offer problems presented by the franchises' sector are mainly due to the decrease in national production and the difficulties to import. Among the most emblematic cases is McDonald's, which had to stop selling several of its products for a few days.

Food sector affected. By March, the food processing industry reported decreases in the sale of nine out of the nineteen products included in the basic basket, compared to the sales of March 2009. This results in the statistical information published by the Venezuelan Chamber of Food Industries (Cavidea), which indicates in March 2010 there were fewer sales in milk (pasteurized and powdered), rice, corn flour, pasta, tuna, cold meats, oils and coffee, than in March of 2009. The products – depending on the agro-industry- with the biggest falls in sales or consumption last month were: powdered milk (-14.65%), pasteurized milk (-13.81%), oils (-5.9%) and coffee (-4.79%).

Others increased. Cavidea reported an increase in the sale of eight products in March of 2010, compared to March of 2009, namely: sugar (19.09%), chicken (9.50%), oat meal (8.66%) and eggs (4.50%). Cavidea's statistics indicate the first quarter of this year reported the decrease of five out of nineteen products in the basic basket, compared to the first quarter of 2009. During the first three months of 2010, there were decreases in the private industry's consumption of powdered milk (-22.10%), coffee (-4.34%), cold meats (-3.30%), pasta (-0.73%) and corn flour (-0.61%).

Sugar cane production to decrease. The Federation of Sugar Cane Farmers (Fesoca) indicates the 2009-2010 sugar cane production will be at 5.8 million tons, 1.5 million tons less than the previous period, representing a 20.5% decrease. This production represents 500,000 tons of sugar, so approximately 700,000 tons will

Strong fall. According to the main director of Sidor's class "B" shareholders, the production of liquid steel decreased by 63.9% during the first quarter of 2010, in y/y terms, going from 844,000 tons in 2009 to 304,000 tons in 2010. This is mainly due to the company's restrictions in energy consumption.



The omnipresent State. The idea, previously presented by the Government through the 2007-2013 First Socialist Plan, proposes the transfer of strategic sectors to the State as one of the steps to continue with President Hugo Chavez's program. The book *The Bolivarian economic policy and the dilemmas of socialist transition in Venezuela*, written by the former minister of Planning and Development, Haiman El Troudi, indicates the capitalist sector must be "object in a great deal of the planning process" and that socialist relations must be restricted in these companies. The plan presumes, according to El Troudi in his book, "regulations in the fields of profit, worker relations, collective appropriation of capital gain and an articulation with the public sector. The activities that need to be subject to said process are especially manufacture, finance, commerce and services "integrated to a value chain controlled by the State."

That's what laws are for. The approval of the Law of Social Property and the reform of the Organic Labor Law (LOT) have both been pending for a long time now. With the first, the intention is to create the new labor relations that need to rule among the workers of socialist companies that have been born from the nationalization of private companies, while the reform of the LOT aims to that exercise in a more global manner. Modifications of the Code of Commerce, which would completely change the definitions of types of property in Venezuela as well commercial relations, have also been analyzed for years.

World Crisis Tips

US home sales increased dramatically. US New home sales increased by 26.9%, seasonally adjusted annual rate, in March, compared to the previous month. This high increase in sales is due to the fact that the US\$8,000 subsidy in future taxes for first-time home buyers expires next week, so buyers are taking advantage of the last moment.

US home prices dropped by 0.1% in February. According to the Case and Shiller Home Price Index, the average price of homes in 20 major US cities reported a 0.1% decrease (seasonally adjusted annual rate) during February, compared to January. However, compared to February of 2009, real estate prices were 0.7% higher, with this being the first positive y/y rate since the beginning of the real estate crisis.

Goldman Sachs accused of financial fraud. Executives of Goldman Sachs are facing accusations of having helped inflate the real estate bubble by packaging toxic



mortgages in bonds between 2004 and 2007 and then repackaging them in complex subprime mortgages, to then obtain profits for thousand of millions of dollars, betting on the bubble's collapse since 2007, selling these subprime mortgages to its clients, thus damaging the capitals of clients, moneylenders and the whole economy. Besides being accused of unethical practices, Goldman Sachs executives are being charged of having kept relevant information from ratings analysts and investors, in a transaction known as Abacus 2007-AC.

Euro zone manufacture and services continue to improve. The European Monetary Union's Purchasing Managers Indexes for manufacture and services continued to report improvements during April. The service production index increased by 2.64% compared to the previous month, while the manufacture index reported a 1.58% gain. The services index was the highest since August of 2007, with 55.5 points, while the manufacture index was the highest since June of 2006, with 57.55 points. It is worth remembering that when these indexes are above 50 points, they indicate the sectors are in expansion. The continuous improvement in the PMIs are an advanced indicator of favorable growth rates in the euro zone, in spite of Greece's fiscal problems and the United Kingdom's weakness (UK is not part of the Euro zone, but the size of its economy has a direct impact on all Europe).

Good perspectives for the German economy. According to the ZEW survey (Center for European Economic Research, according to its acronym in German) to institutional investors and analysts, the expectations for macroeconomic conditions improved significantly during April, compared to the previous month. The survey reveals that those expecting the macroeconomic conditions to improve within the next six months exceed those who think they'll get worse by 53%, a considerable improvement, up from 44.5% in March.

British economy decelerates more, less growth, more inflation, more unemployment. According to the UK National Statistics Office, the British economy grew only by 0.2% (seasonally adjusted q/q rate), after having grown by 0.4% during the fourth quarter of 2009 (revised SAAR rate, previously 0.3%). The y/y inflation by March-end reached 3.4%, after having reached 3 ub February, while the disbursement of the November-February period reached 8%, the highest rate since September of 1996. Fiscal accounts leave no room for optimism; the British Government's deficit during March was £14.8 billion, 23.3% more than in March of 2009, while the net indebtedness reached £23.5 billion, 16.9% higher than that of March of the previous year.

Greece finally requested the financial rescue. After Moody's lowered the debt rating from A2 to A3 with a negative perspective, the Greek Government requested the previously approved financial aid package from the EU and the IMF (€30 billion EU and €15 billion IMF). The rating reduction came after the fact that the Greek



Government's deficit reached €32.3 billion last year became public, 13.6%, much higher than expected.

S&P lowers Greece's rating to junk, Portugal's to A- and Spain's to AA. Standard and Poor's lowered Greece's long term sovereign debt rating to junk status, moving it from BB+ to BBB+ with a negative outlook. S&P also lowered Portugal's long term sovereign debt rating from A+ to A-, its short-term sovereign debt from A-1 to A-2, and lowered the Spain's sovereign debt from AA+ to AA, reflecting the fiscal risks that this euro countries are facing. S&P expects the Portuguese Government to continue struggling to solve its fiscal problems within the next three years.

Lots of action in the stock markets due to fear of contracting debt problems. After S&P lowered the debt ratings there was a lot of action in the stock markets, which was reflected in the CBOV volatility index, which increased to 22% on Tuesday April 27: the main European stock exchange indexes fell, such as the French CAC-40 with -5.2%, the UK FTSE 100 with -2.9%, the S&P 500 -2.8%, the Dow Jones -1.9%, the Nasdaq -2.1%, WTI oil decreased from US\$84.5/b to US\$82.4/b, and gold increased by US\$14.4 to reach US\$1.167.9/b (let's remember gold is a risk coverage asset).

Political Tips

Opposition reaches agreements. Last weekend, the Democratic Unity Table announced the consensus candidates and on Sunday were celebrated the primary elections in the agreed circuits. This way, the opposition armed the set of candidates to run for a chair in the National Assembly next September. This is a significant advance, especially considering the large number of people involved. It is an effort that needs to be acknowledged, even though, as it was to be expected, not everyone was satisfied. What's next is to prepare an articulated message that connects with the majorities and to minimize dissatisfactions within the different political parties.

Primary elections. As to the primary elections, it is worth highlighting the high degree of participation, considering this type of event. Secondly, the excellent performance of all candidates in campaign, the respect for the results, and the role played by the CNE. With this primary elections, Venezuela falls into a new dynamic that seems to be headed to playing a stellar role in upcoming processes.





87% of unity candidates approved. The Democratic Unity Table approved the final row of candidates for 15 out of the 24 states. The goal was to sanction all 88 candidates by circumscription (nominal), 52 by list and 3 indigenous representatives, for a total of 143 names between permanents and substitutes, which is equivalent to 87% of all candidacies. The remaining 13%, corresponding to circumscription candidates, underwent primary elections.

High degree of participation. A total of 361 thousand voters (9.4% of the electoral universe), participated in the past primary elections, where 22 candidates were elected for 15 nationwide circuits. In Miranda, the percentage of participation was 23.5% of the electoral universe, in Zulia, participation was 14.41% and in Carabobo, 9.63%.

Democratic Unity Table: Expectations exceeded. The participation in the primary elections celebrated last Sunday exceeded all expectations, according to the Democratic Unity Table's (MUD) Technical Commission Coordinator. In these elections, planned to choose the opposition's National Assembly representative candidates, the large number of voters forced the voting centers to extend the voting hours from closing at 4 pm to finally closing at 6 pm. The city's east side was overcrowded with voters. In contrast, there was a low voter participation in voting centers located in the city's west side.

22 unity candidates elected. Ramon Jose Medina, representative of the Democratic Unity Table's Technical Commission announced the results of the primary election celebrated last Sunday. Citizen participation was at 25%; the results concluded with 98% of the votes counted and, therefore, are final.

Results obtained. The candidates elected by circumscription were: for the Capital District Circumscription 1 (La Pastora, El Junquito and Sucre), the candidates elected were Yván Olivares with 22.5% and Pablo Medina 20.9%; Anzoátegui Circumscription 1 (Freites, Independencia, Miranda, Monagas, Simón Rodríguez and Guanipa): Ernesto Paraqueima 44.1% and Rodolfo Rodríguez 36.9%; Circumscription 3 (Bolívar, Peñalver and Píritu) Carlos Michelangeli 41.6% and Richard Arteaga 19.7%; Circumscription 4 (Sotillo, Guanta and Urbaneja) Marcos Figueroa 89.7%; Miranda Circumscription 2 (Chacao, Baruta, El Hatillo and Leoncio Martínez) María Corina Machado 50.3%; Carabobo Circumscription 1 (Bejuma, Montalbán, Juan José Mora, Puerto Cabello and Miranda) Ydilio de Abreu 89.3%; Circumscription 2 (Diego Ibarra, Guacara and San Joaquín) Vestalia Sanpedro 50.1%; Circumscription 3 (Valencia, Catedral, El Socorro, San Blas, San José, Naguanagua, San Diego): Michelle Cocchiola 61.9%; Circumscription 5 (Miguel Peña, Negro Primero, Rafael Urdaneta, Santa Rosa and Libertador) Julio Castillo 31.5%, Eduardo Pino 25.2% and Noé Mujica 20.6%; Lara Circumscription 1 (Iribarren, Aguedo, Alvarado, Buena Vista, El Cují, Villegas de Juárez, La Concepción, Tamaca and la Unión) Víctor Torrealba 17.9%.



Pedro Pablo Alcántara 15.0% and José Ignacio Guédez 16.7%; Táchira Circumscription 1 (Bolívar, Independencia, Junín, Ureña, Libertad and Urdaneta) Leomagn Flores 88.8%; Circumscription 2 (Ayacucho, Lobatera, Guásimos, Michelena, Andrés Bello, Seboruco and Vargas) Gabino Paz 91.4%; Zulia Circumscription 1 (Machiques de Perijá, Rosario de Perijá and Jesús Semprún) Juan Romero 76.7%; Portuguesa Circumscription 3 (Páez, Agua Blanca, San Rafael de Onoto) Lourdes Downing 40.2%; Circumscription 4 (Araure and Ospino) Joel Hernández 79.5%.

President on Twitter. The Venezuelan people will be able to follow President Hugo Chavez on an account to be created on the social network Twitter. The announcement was made by the PSUV's Vice President for the Central Region, Diosdado Cabello, during a press release in which he called the over 7 million red militants to imitate the Venezuelan Head of State and open their own accounts. He also said, *"We are going to take social networks by assault to counteract the opinions issued by opposition factors through them."*

Chavez ratified as President of PSUV. The I Extraordinary Congress of the United Socialist Parties of Venezuela approved the party's statement of principles, statutes and program bases. Cilia Flores, party vice president, and president of the National Assembly, announced the approval. Subsequently, Magda Tovar, a delegate for the Miranda State, was in charge of reading the resolution that "by acclamation" ratified "the Commanding President as president of the PSUV."

Cuban-Venezuelan economic alliance. President Chavez said Cuba has a lot of potential, and a lot of capable and trained people to develop agreements for investments, technology, and import substitutions. In their meeting, Chavez and Raul Castro discussed an integration plan and the creation of a more detailed map of economic complementation, besides all of the social development. The Venezuelan President also said that no pressures of any kind would untie Cuba's and Venezuela's common destiny.

Cuba and Venezuela: "The same thing." Cuban President, Raul Castro, after having visited Venezuela, said both nations' brotherhood was growing and growing, stating Venezuela and Cuba "are the same thing." He addressed Bolivarian Armed Force members to invite them to shape their souls, their mystique, their minds, and to continue to master the use of weapons to guarantee peace."

Argentina and Venezuela consolidate agreements. The Venezuelan President and his Argentine homologue, Cristina Fernandez de Kirchner, consolidated 25 cooperation agreements in the fields of construction, food and energy. In this visit of the Argentine President, 11 documents were signed, to total 25 agreements; if we



include the previous 11 agreements signed in private with representatives of both nations.

7 thousand Venezuelans in 10 years. Since 2004, the number of Venezuelan political refugees in USA has increased significantly. According to US Homeland Security, the number of Venezuelans in the United States reaches 7,019, out of which 5,664 receive “affirmative asylum,” granted to people who enter the country legally and request the American Government’s benefit.

To lower the crisis’ tone. The Venezuelan ambassador in Colombia, Gustavo Mendez, said Venezuela was entering a “stage of positive expectations, trying to lower the political discussion’s volume.” In an interview, the ambassador referred to the future of the bi-national relations and in light of the upcoming presidential election to be held in Colombia, “logic indicates we need to wait for things to normalize” so that “with new actors, we can retake our path”.

New ambassador in Paraguay. Jorge Arrue, National Assembly representative, was appointed as Venezuelan ambassador in Paraguay, substituting Nora Uribe, the previous official. Arrue integrated the National Assembly’s Energy and Mine Commission and is a former Jesuit seminarian. His religious dedication may have influenced his appointment in that position, since the Paraguayan President, Fernando Lugo, is a former catholic bishop.

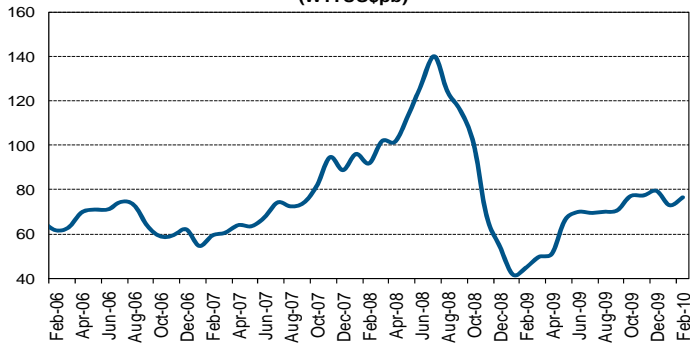
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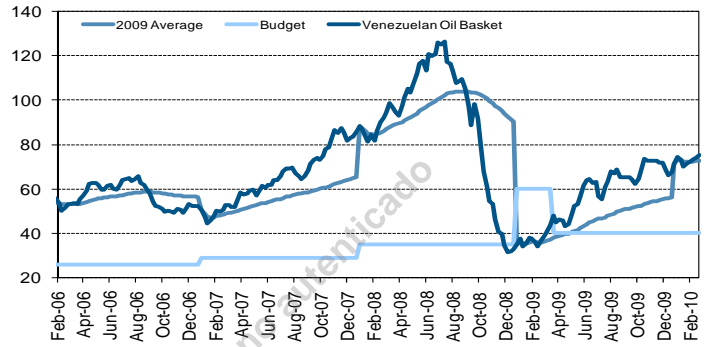


ECONOMIC OVERVIEW

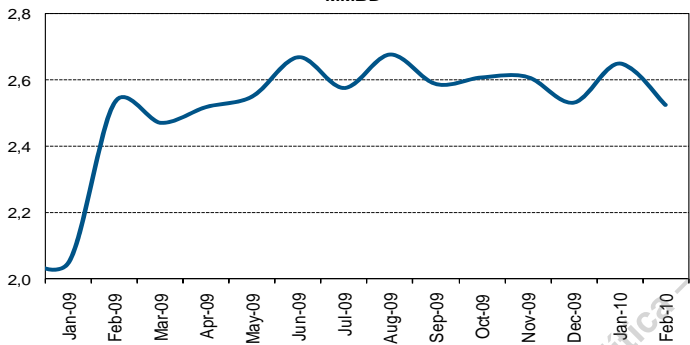
Oil Prices (WTI US\$pb)



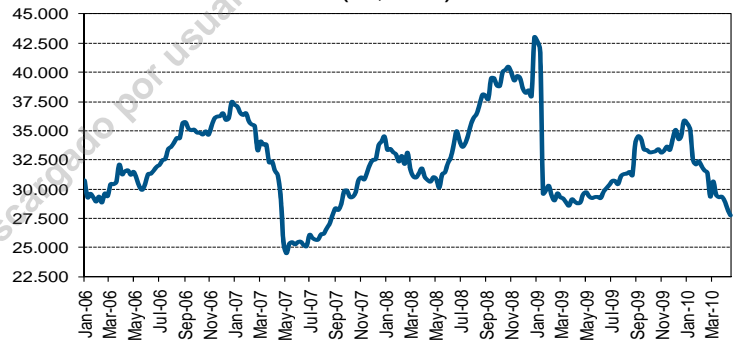
Oil Price (Venezuelan Basket US\$pb)



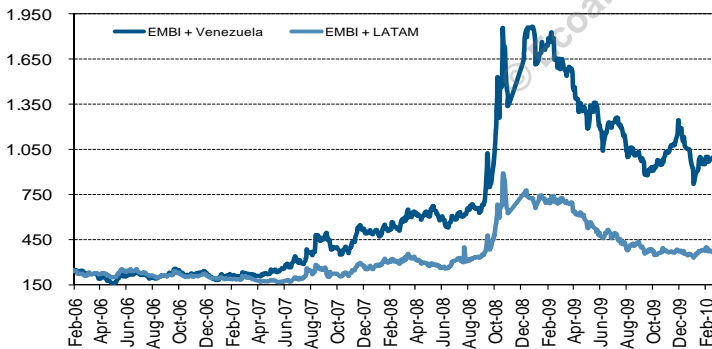
Oil Exports MMBD



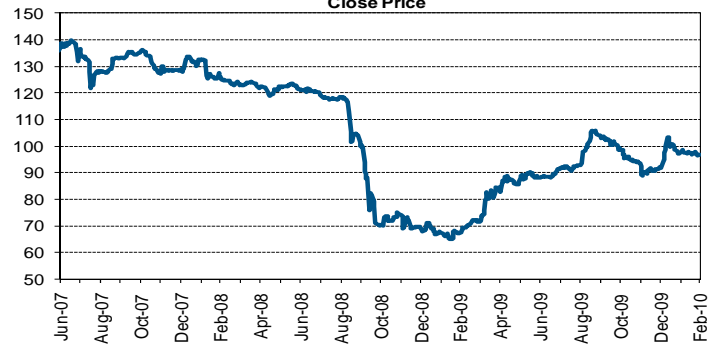
Fx Reserves - BCV (US\$ Million)



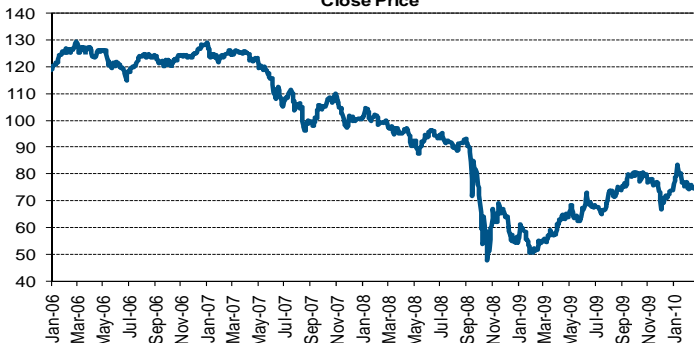
EMBI+



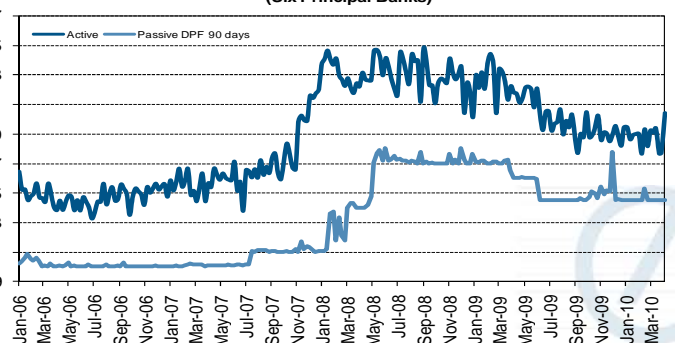
Venezuelan Global 18 Close Price



Venezuelan Global 27 Close Price

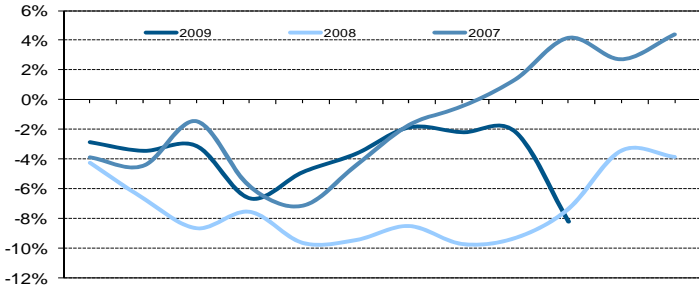


Interest Rate (Six Principal Banks)

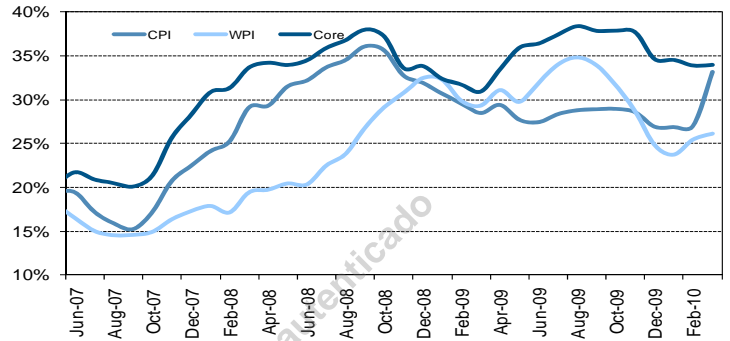




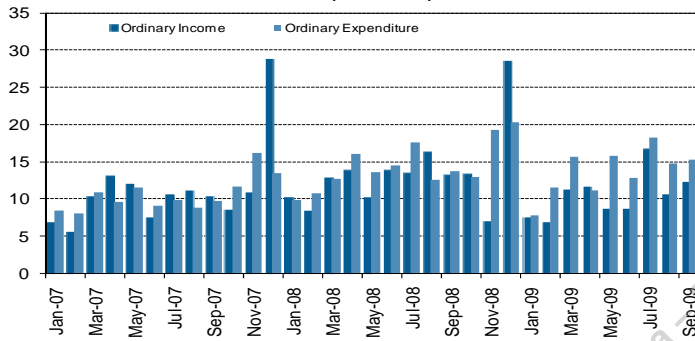
Real Expansion (M2)



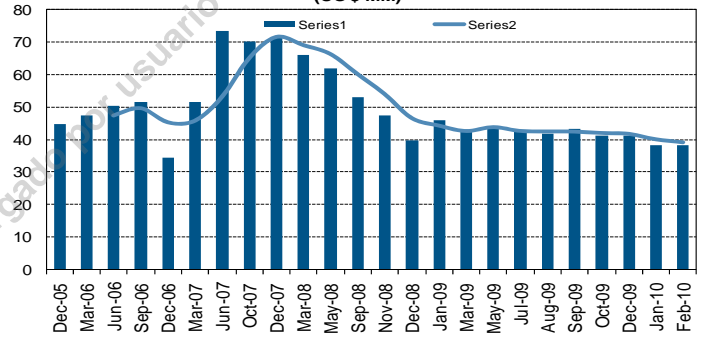
Inflation (Last 12 Months)



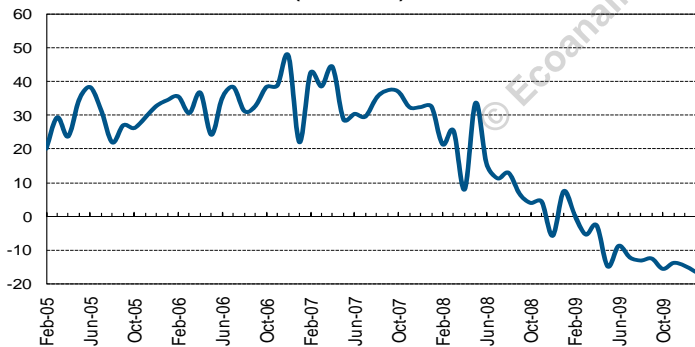
Central Government (VEB Billion)



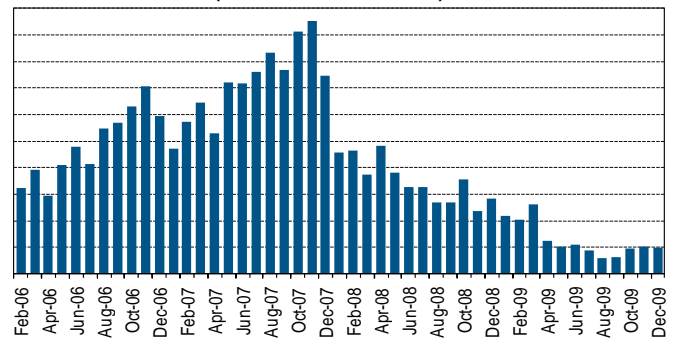
Resources of the State (US\$ MM)



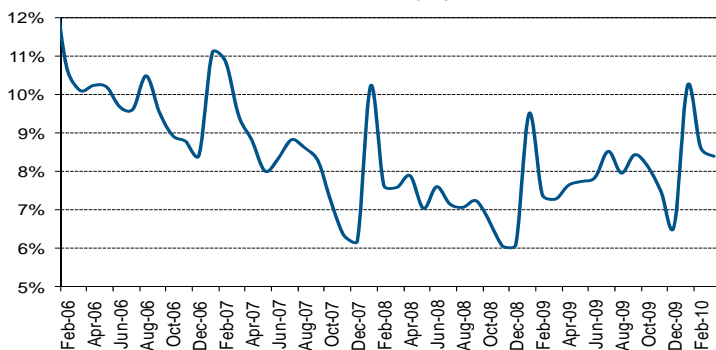
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

