

A drilled industry

With just over three months of the year behind us, Venezuela's external situation in 2018 is flirting with history in terms of fragility and deterioration. The same week that a group of debt holders announced their intention to get organized¹, the Organization of Petroleum Exporting countries (OPEC) confirmed it would extend an almost uninterrupted 34-month drop in oil production. All this is happening on the threshold of an electoral process lacking in legitimacy and under the threat of sanctions against the country's oil industry.

As we have warned previously, the more the Venezuelan Government is bent on continuing to violate the democratic norm –in a context of a significantly tighter budget-, the greater the likelihood of an “embargo” on the state-owned oil company and the Republic.

Defining the term “embargo” is fundamental, given the situation and the characteristics of Venezuela's case. At **Ecoanalítica** we consider that there are two ways this could play out, neither one of which rules out the other. In the first case, it could come about as a result of a possible speeding up of payments of outstanding liabilities and the filing of a lawsuit against the Republic as a result of the default. In the second case, it could happen because of restrictions being imposed on trading in Venezuelan crude on the international market.

The collapse continues

An unavoidable starting point for trying to explain Venezuela's external situation is what is happening with its oil industry. At the close of March, according to figures reported by PDVSA to OPEC, oil production was around 1.5 million barrels a day (mb/d), for a drop of 77,000 barrels a day (77 kb/d) compared to February and of 623 kb/d, on average compared to the output for the first two months of the year in 2017².

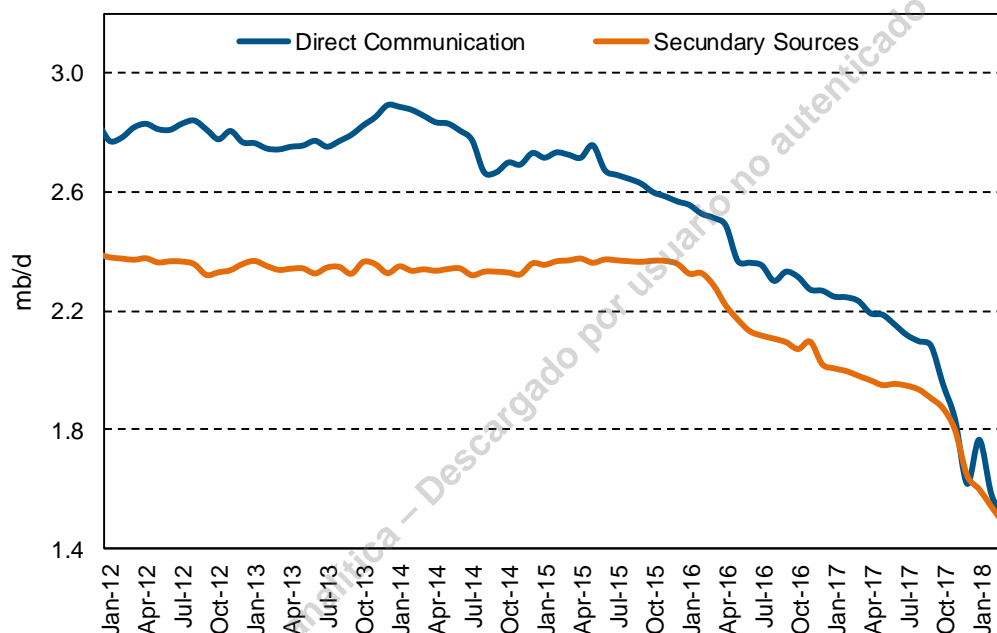
¹ Porcecanski, Katia: “[Venezuela Creditor Group Taps Millstein as Financial Adviser.](#)” Bloomberg News, April 20, 2018.

² Albeit with a difference in terms of levels, secondary sources consulted by OPEC show a similar trend. At the close of March, they put Venezuela's oil production at around 1.48 mb/d, 55 kb/d less than in February and cumulative production for the year 452 kb/d below the average posted for the same period the previous year.

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The extreme rigidities affecting its cash flow, problems in terms of investment, and the repeated incorporation of activities of a social nature that have nothing to do with the industry resulted in the state-owned oil company losing close to 54 kb/d a month, on average, throughout 2017 and 96 kb/d between October last year and March this year, revealing an acceleration in the deterioration of this indicator in recent months.

Venezuela's Oil Production



Sources: OPEC, PDVSA and Ecoanalítica

The general collapse of the industry (-1.17 mb/d since 2012³) would seem to be playing an increasingly major role in how a crisis marked by a potential embargo will play out. What is more, given a reduced margin of maneuver, at **Ecoanalítica** we see no reason for expecting oil production to stabilize in the medium term.

Can we recover? What do we need?

It seems that not all roads lead to Rome. Given a high foreign currency requirement and the existence of sanctions, it is unlikely that PDVSA will be able to generate sufficient revenue to deal with a fragile external situation and, at the same time, meet its minimum investment requirements; and that is despite a sustained increase in oil prices in recent

³ Cumulative average for the same period (January-March)

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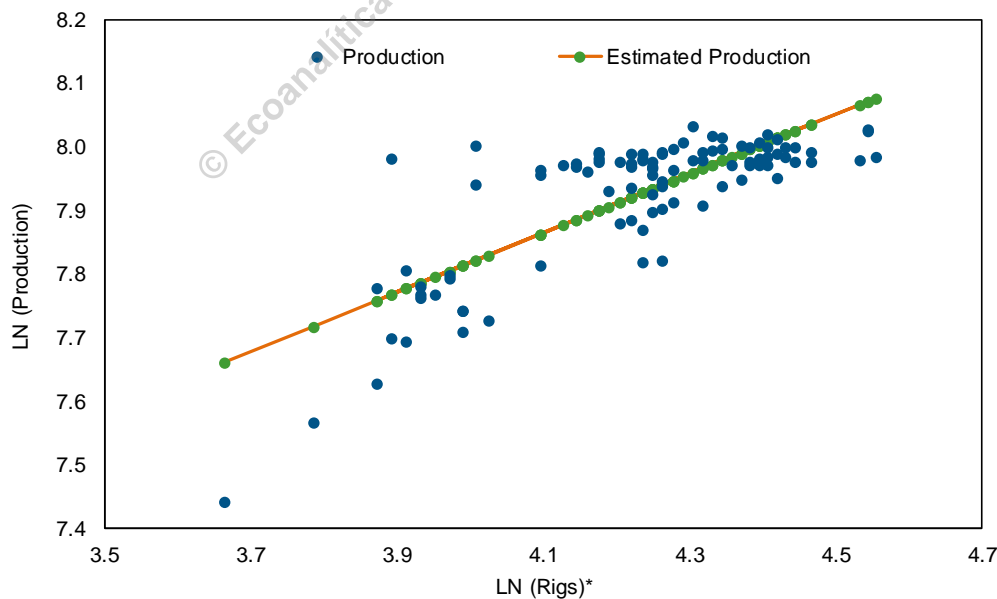
weeks. This situation gets even bleaker if account is taken of the lack of action on the economic policy front and the present imbalances.

That said, the only viable option for stabilizing production would seem to depend on a private sector that has opted for writing down losses on certain operations in Venezuela⁴. In this regard, at **Ecoanalítica** we consider that, given the current situation and the deterioration in business conditions, it is unlikely that the private partners in the Orinoco Oil Belt would be prepared to invest with the purpose of stabilizing production.

However, the fact that we are a long way from a stabilization scenario in the short term does not mean it might not happen in the future. In fact, one of the issues repeatedly raised by public opinion has to do with what characteristics a possible process of change would have, or analogically, what would be needed to stop the industry from totally collapsing.

Although a debate on that scale falls far outside the scope of this report, we will focus on just one point: the rig count. While imperfect, the aggregate of operating rigs usually serves as a proxy for the state of the industry's operations and its investment dynamic. That being so, it is worth asking: What level of rigs is needed to stabilize production?

**Oil Production vs. Total Rigs
 (Regression Curve)**



Sources: OPEC, PDVSA, Baker Hughes and Ecoanalítica
 * The rigs data considers a lag of two months.

⁴ Crooks, Ed: "[Halliburton writes off investment in crisis-hit Venezuela](#)" The Financial Times, April 23, 2018.

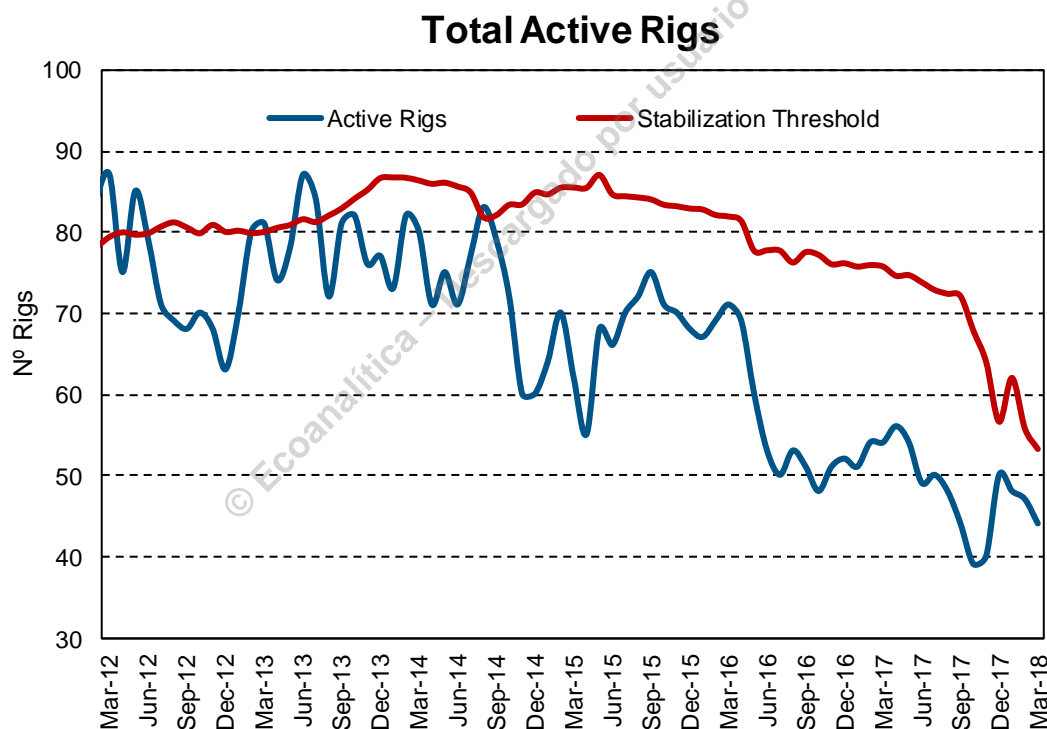
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Answering this question implies addressing two key elements. First, we need to stress the importance of the desired level of production. In other words, if we start from a scenario in which oil production should be at levels close to those posted in 2011 (2.82 mb/d), that would require a significantly larger number of operating rigs than those needed to maintain production of 1.32 mb/d less (close to the output posted in March, 1.5 m/d). Naturally, producing more requires more rigs.

Nevertheless, the number of rigs alone is not a sufficient indicator. The collapse of real wages, the deterioration in working conditions, emigration, and the cash problems that have meant less investment upstream, as well as fewer active wells, will lead to lower productivity per rig. In other words, even though fewer rigs are needed to achieve a lower level of production, productivity (number of barrels per operating rig) has also fallen.



Sources: Baker Hughes and Ecoanalítica

On average, the number of rigs has been around thirteen units below the threshold needed to stabilize production since 2012. As at March this year, the difference was nine rigs, a difference that would only be reversible if there were a drastic change in how the industry is run and in economic policy. As **Ecoanalítica** sees it, that change is unlikely in the short term.

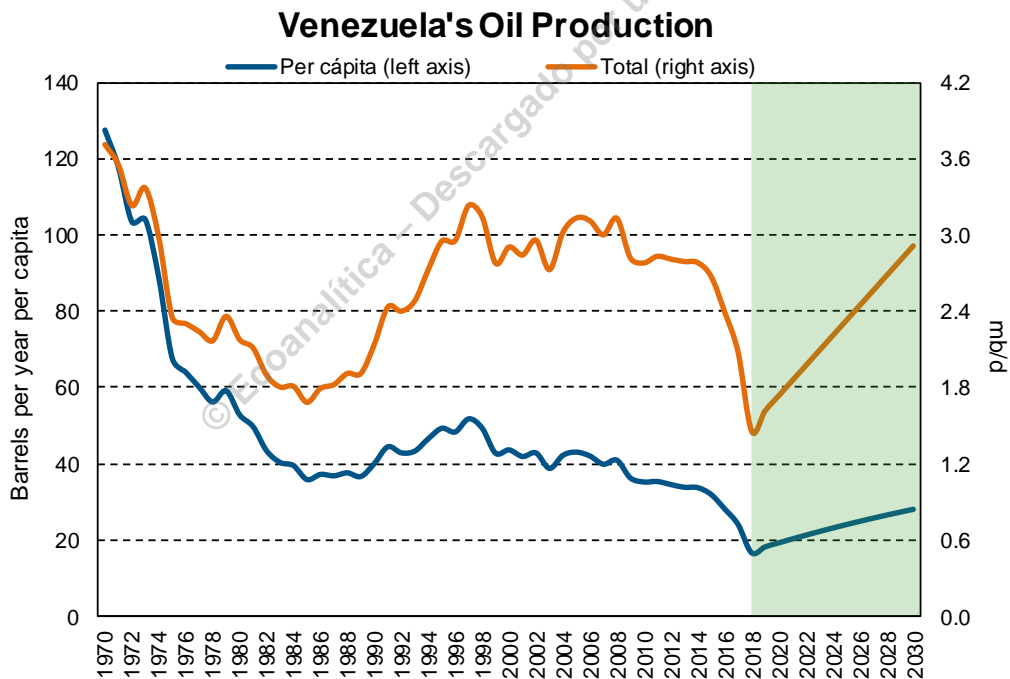
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1950 (or 1927) revisited and getting back to 2014

Even though a recovery in oil production would be an improvement, the collapse of the past few years comes at a significant cost in the long term; a cost that increases the lower the production starting point gets.

Based on our oil production estimate for 2018 (1.45 mb/d⁵), this would be close to production posted in 1950 (1927 in per capita terms) and 1.28 mb/d below production posted in 2014. If we take a scenario in which there is recovery close to the average annual increase over the period 1985-1998 (118 kb/d), it would take us 11 years to get back to 2014 levels; it would take approximately 12 years, assuming a similar recovery at the average rate of growth achieved between 1944 and 1970, and just over 10 years in an optimistic scenario⁶. In other words, the longer the collapse continues, the slower the recovery process will be.



Sources: PODE, PDVSA and Ecoanalítica

In this context, there would be the embargo. With an industry in a state of deterioration such that it is incapable of recovery, and whose collapse poses a significant challenge over the long term, this scenario is dramatic.

⁵ Average for the year

⁶ Assuming the maximum mobile average (10 years) increase posted in oil production since 1920 (156 kb/d)

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The embargo is coming

At the time of writing, the Republic and PDVSA combined have a total of USD 3.64 billion in delayed payments (USD 2.8 billion formally in default) spread out among 21 securities, some of which are more than 140 days overdue.

Late payments (External Debt) (USD MM)

Past Grace Period (Announced)	
Coupon Vzla 19	96.70
Coupon Vzla 24	103.00
Coupon Pdvs a 21	107.70
Coupon Pdvs a 24	150.00
Coupon Pdvs a 26	135.00
Coupon Pdvs a 35	146.30
Total	738.70
Past Grace Period (No Official Information)	
Coupon Vzla 18N	35.00
Coupon Vzla 20	45.00
Coupon Vzla 23	90.00
Coupon Vzla 25	61.20
Coupon Vzla 26	176.30
Coupon Vzla 28	92.50
Coupon Vzla 36	162.50
Coupon Vzla 34	70.30
Coupon Vzla 31	250.95
Coupon Vzla 18N	71.67
Coupon Pdvs a 22	191.50
Coupon Vzla 22	191.25
Coupon Vzla 27	185.00
Elecar 2018 (Principal)	650.00
Total	2,273.17
On Grace Period	
Coupon Pdvs a 27	80.6
Coupon Pdvs a 37	41.3
Coupon Vzla 19	96.7
Coupon Vzla 24	103.0
Coupon Vzla 25	61.2
Coupon Vzla 26	176.3
Coupon Vzla 38	43.8
Total	602.76
Total	3,614.63

Sources: MEFBP, PDVSA and Ecoanalítica

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The communication strategy used in the case of some papers (particularly those having to do with PDVSA) and the potential consequences of a default on the state-owned oil company's debt seem to have given people the idea that the Venezuelan Government would give priority to payments associated with that debt, while falling into a partial default on the Republic's obligations with the market in the hopes of restructuring the latter.

Even though we see no reason for if the government will resume systematic payment of the debt, at **Ecoanalítica** we believe that it will continue with a selective default on certain securities, earmarking the scant payments for specific papers. At the close of February, funds intended for servicing the debt and that have been retained (because of overcompliance with the sanctions by international banks) came to USD 947 million, a much lower amount than the outstanding payments and/or payments in default (USD 3.64 billion).

Retained Resources (MM USD)

Item	17/1/2018	31/1/2018	28/2/2018	31/3/2018
External Debt Payments (Vzla and Pdvs)	723.1	816.4	946.7	831.0
Suppliers (Pdvs)	118.3	97.5	90.0	16.5
Suppliers (Central Government and other entities)	656.1	756.0	615.0	746.1
Not-Reported Exports	2,506.0	3,031.0	841.3	1,016.3
Total	4,003.5	4,700.9	2,493.0	2,609.9

Sources: Ecoanalítica

This fact, added to the payment of PDVSA 22 (6%) acquired by Goldman Sachs, gives grounds for thinking that the government could make the payment of some papers, something that would speed up actions by creditor affected by the default. In this regard, we expect legal action to be taken against the Republic and PDVSA by the different bondholders. The embargo has arrived.

Is there margin for maneuver?

Trapped between sanctions and the collapse of the oil industry, the room for maneuver available to the government has been drastically reduced in the past few months. Nevertheless, taking a level of imports similar to that posted in the months after nonpayment (19.2% below that posted over the same period twelve months earlier) and an absolute default on external debt payments, the government could have a cash surplus of close to USD 6,98 billion, resources that, as a consequence of the sanctions and the widespread rejection of Venezuela by the international financial system, are hardly likely to result in a higher level of imports.

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Hard Currency Cash Flow

Item	2015	2016	2017	2018
Income				
Effective Oil Exports (mb/d)	1.8	2.1	1.8	1.2
Venezuelan Oil Basket Price (USD/bl)	52.9	34.0	43.7	55.3
Oil Income (MMM USD)	35.6	25.5	28.0	24.7
Non-Oil Income (MMM USD)	2.1	1.3	1.8	2.1
Total Income (MMM USD)	37.7	26.8	29.8	26.8
Egresos				
Total Imports (USD MMM)	36.5	18.0	11.9	9.2
Oil Imports (Products)	7.8	6.4	5.4	4.3
Non-Oil Imports	28.7	11.6	6.5	4.9
Services, Rents and Current Transfers	15.3	11.0	8.4	6.4
Servicio de deuda externa (USD MMM)	10.4	10.9	11.4	1.7
Private Capitals Outflow	-4.1	-2.4	-1.8	-2.0
Total Expenditure	58.1	37.5	29.9	15.3
Result	-20.5	-10.7	-0.1	11.5
Financiamiento (MM USD)				
Net Flow with China	-1.3	1.0	-1.2	-5.2
Net Flow with Rosneft	-	1.5	-1.9	-3.2
Net Result	-21.7	-8.2	-3.1	3.0

Sources: BCV, Menpet, Pdvs and Ecoanalítica

Nevertheless, according to unofficial sources, China has apparently conveyed to the government its unwillingness to renew the current grace period on the Chinese Fund's capital payments. If it is not renewed, servicing of the debt would go up from USD 16.12 billion to USD 20.14 billion, giving a surplus of around USD 3.05 billion. In other words, part of the gain from defaulting on the bond market would go to defraying bigger payments to China because of normalizing servicing of the debt proposed by the Chinese.

It is worth mentioning that the situation could become even more dramatic as sanctions become harsher, for example, directly freezing the Republic's assets, imposing import quotas on Venezuelan crude in the rest of the world, and restrictions on using the money from Venezuela's oil exports, among other measures⁷.

Continuing with this line of thought, the first trade sanction that the oil sector could suffer would be an embargo on US exports of crude and diluents to Venezuela, whereas an embargo on imports of Venezuelan crude by the United States would be left for a later date.

⁷ These last two measures played a leading role in the case of Iran.

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In addition, even though our base scenario contemplates rigidities in moving that initial cash surplus, this situation could ease up. If it manages to reduce the problems of overcompliance with the sanctions and delay the litigations inherent in the default, the government could raise the level of imports in the medium term, cushioning the seriousness of the crisis somewhat.

The perfect storm

2018 is shaping up as a year of the utmost fragility in Venezuela: collapse of the oil industry, default, sanctions, and rejection by the international community, to name but a few. Only time will tell how things will play out.

Gorka Lalaguna
Alejandro Grisanti

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WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week April	Weekly var. (%)	Depre/Apre (pp) ¹
FX Dicom (VEF/USD)	66,938	12.5	11.1
	1st Week April	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.7	0.1	-0.4
	3rd Week April	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	4.3	2.4	4.1
	2nd Week April	Weekly var. (%)	Annual var. (%)
International Reserves (USD Bn)	9.8	-0.4	-3.7
	1st Week April	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	519,665	13.7	3,553.1
Price of International Oil Baskets (USD/b)			
	3rd Week April	Weekly var. (%)	Annual var. (%)
WTI	67.4	3.7	30.1
Brent	72.6	3.4	33.4
Price of the Venezuelan oil basket (USD/b)			
	3rd Week April	Weekly var. (%)	Annual var. (%)
Weekly Average	63.3	3.6	41.2
Annual Average	59.8	0.4	33.7

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)

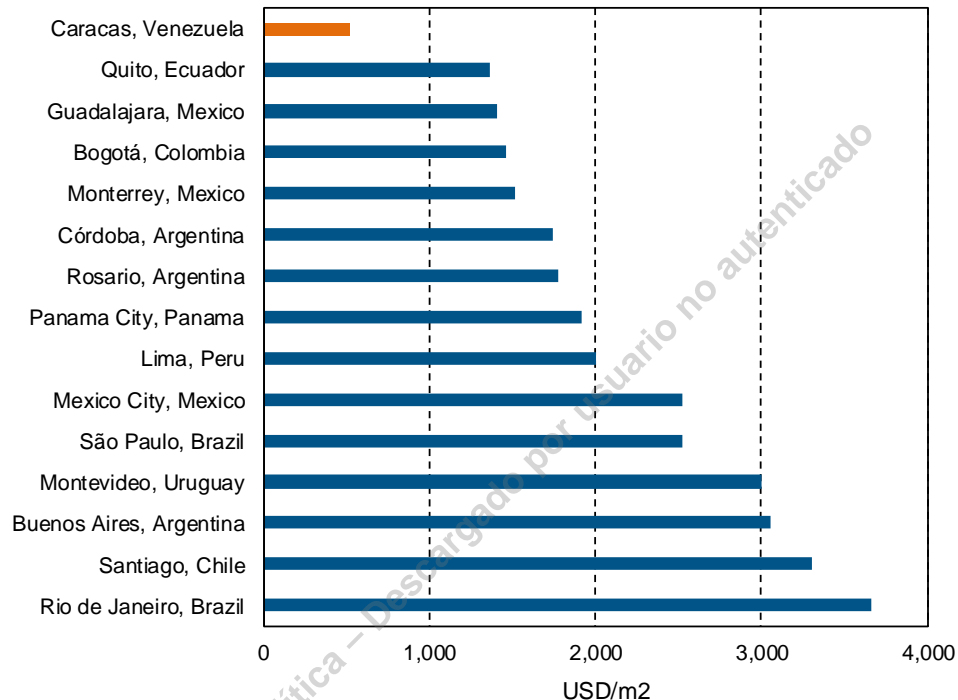
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CHART OF THE WEEK: "FIRE SALE PRICES"

Price per Square Metre in Latin America



Sources: Universidad Torcuato Di Tella and Ecoanalítica

Torcuato Di Tella University did a comparative study of average residential real estate prices in cities of Latin America. The sample used for the Latin American Real Estate Survey consisted of sectors in 15 cities in 10 countries of the region.

The results of the survey for the month of March gave an average price per square meter of USD 2,233 in Latin America. According to the report, this average did not take into account the price obtained for Caracas (USD 518/m²), given its volatility. This result makes Caracas the cheapest city in terms of residential real estate.

The report states that prices in Caracas fell by 38.4% in nominal dollar terms, whereas the average for the region (excluding Caracas) posted growth of 6.9%.

In real terms, housing prices have fallen, despite hyperinflation. The high migratory flows have forced many people to sell off their assets, which has pulled prices down. Given the present circumstances, the real estate sector offers an investment opportunity, taking advantage of the "low prices."

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ECONOMIC TIPS

Down 74.4%. A total of USD 317,778 was shared out among 16 companies (66.3%) and 311 private individuals (33.7%) at the tenth auction of the Complementary Foreign Currency System (DICOM), a reduction of 74.4% compared to the amount allocated previously via this official foreign currency mechanism.

And we'll continue to devalue. The exchange rate resulting from Auction Number 10 was VEF 82,159.1/EUR equivalent to VEF 66,938/USD. This information was published by the Auctions Commission on April 20. The devaluation from the previous auction was 11.1% and the total devaluation for the year to date is 26.1%.

Worker's Food Basket reaches VEF 28,635,190.65. According to the last report by the CENDA, the Worker's Food Basket (CAT for its Spanish acronym) reached VEF 28,635,190.65 on August 2017. This represents an increase of 44.6% compared to the previous month and of 4,630.0% compared to March 2017.

Family income only covers 1.4% of the basket. According to the report by CENDA, the minimum wage of VEF 392.646.46, effective in March, 2018 had a purchasing power of 1.4%. Which means that, a family requires 73 times the minimum wage just to cover their basic expenses on food.

On a seesaw. On April 20, the international reserves came to USD 9.81 billion for a reduction of 0.39% compared to the close of the previous week. Although they were up 3.7% (USD 351 million) compared to a month ago, the drop so far this year has been 1.6% (USD 162 million).

Sterile policies. During the first quarter of 2018, liquidity in the amount of VEF 7 trillion was siphoned off through mopping up operations performed by the Central Bank of Venezuela. That amount is 53.5% more than the total drained from the economy by the Central Bank in 2017.

Living in default. Today, the total value of the Republic's outstanding coupons comes to USD 1.63 billion. The Venezuelan Government is in default on 14 coupons that have gone beyond their grace period. The grace period for VENZ 38 expires on May 2.

"Rescue plan." Colombia's Treasury Minister Mauricio Cárdenas has submitted a proposal for an economic rescue plan for Venezuela to the International Monetary Fund (IMF). Cárdenas estimates that some USD 60.0 billion is needed to finance a process of

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“*economic stabilization.*” The minister explained that this amount was calculated based on “*a minimum level of imports to ensure a basic diet.*”

Sued. The US company Kimberly-Clark has filed a lawsuit against Venezuela before the World Bank’s International Center for Settlement of Investment Disputes (ICSID). The lawsuit has to do with the expropriation of the company’s plants by the government in 2016.

Unprecedented figures. Money supply came to VEF 519.7 trillion on April 13. The increase in just one week was 13.7% (VEF 62.4 trillion); each week it has grown by VEF 26.2 trillion on average so far this year; and at the close of the second week of April, it was four times what it was at the close of 2017 (VEF 127.3 trillion).

OIL TIPS

Oil courses online. Petróleos de Venezuela, S.A. (PDVSA) started the First Online Training Encounter, the purpose of which is to train the company’s employees. The initiative is being carried out via the “*Fórmate*” platform, a digital tool for providing oil training with the support of public and private universities and technological and research institutes.

Arrest at Chevron. Two employees of the oil company Chevron were arrested in Venezuela on April 16 when they refused to sign part of a contract with the state-owned oil company, PDVSA. The employees, Carlos Algarra and Rene Vasquez, were arrested at Chevron’s offices in Puerto La Cruz.

What are they accused of? Foreign companies, among them Chevron, have taken an interest in fixing the inefficiencies in PDVSA’s operations. However, this process was stopped due to problems of agenda. PDVSA blames Chevron’s employees and is accusing them of acting against the State, a crime that is punishable with a 30-year prison sentence.

Tensions on the international front... Since Quevedo took the helm at Venezuela’s state-owned oil company, PDVSA, tensions with foreign oil companies have increased. Many of these companies have withdrawn their workers from Venezuela owing to security issues.

...and at home. According to an exclusive article by Reuters, between January 2018 and January this year, around 146,000 of PDVSA’s workers have resigned. The resignations

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have only increased with the arrival of Quevedo. It is feared that this situation, added to past arrests, will result in PDVSA's operations crisis rapidly getting worse.

Assessing quality. The effluents from the treatment plants of the company Refinación Oriente into Pozuelo and Bergantín bays were assessed last week. Members of the company's Environment Department, together with experts in chemical engineering, hazards, biodiversity and ecosystems assessed quality parameters such as oxygen and pH, among others.

Environmental impact as well. The impact that these discharges have on the environment was also assessed. The idea is to determine whether the environment is being negatively affected, in which case measures will be taken to ensure that it is protected.

Exporting to Turkey. The first shipment of coke, a byproduct of oil, was delivered to the Republic of Turkey. This shipment, 54 metric tons, is part of the first phase of the energy cooperation agreements between Venezuela and Turkey.

Amuay is almost closed down. Amuay Refinery's fifth distillation unit is out of service. The refinery, which is being run by PDVSA, is producing 120 kb/d when it has a capacity of 655 kb/d, according to Reuters. Only two of its distillation units are still operating.

OPEC is getting there. The Joint Technical Committee (JTC) of the Organization of Petroleum Exporting Countries (OPEC) found that petroleum stocks in March were 12 million barrels above the five-year average. OPEC states that it has eliminated the global petroleum surplus.

And it will continue along the same path. Despite the fact that Saudi Arabia, the cartel's most influential member, has not cut its output, OPEC says it is close to its target. This is due to the production cuts by Russia and other equally important members. It says it wants to continue with the same strategy in order to then invest in new production and avoid a shortfall in supply.

United States takes advantage of OPEC pact. The United States has increased its production by 10.7 mb/d this year, competing with Russia and Saudi Arabia. Thanks to this increase it has flooded the European market, taking advantage of the OPEC production cut agreement to bring the oil market into equilibrium.

Artificial increase in prices. According to the news agency Reuters, the United States' shipments to Europe in April hit an historic high of 550 kb/d, accounting for 7% of US crude exports. In his Twitter account, President Donald Trump acknowledged the results

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of the OPEC agreement, announcing the “artificial” increase in oil prices; something that does not look good and will not be accepted.

BUSINESS SECTOR TIPS

Rudimentary alternatives. Given the decline of the bolivar, Cojedes State Government is looking for monetary alternatives. This time it has entered into an alliance with the communal councils to issue banknotes called “Zamoranos.” These banknotes do not have any security marks and can only be used to pay for the bags of staples distributed by the Local Supply and Production Committees (CLAPs) or at socialist fairs or bakeries.

And now the “Caribe”... During a Bolivarian National Guard (GNB) jamboree, Érika Farías presented her proposed currency, the “Caribe,” as an alternative to the bolivar to be used to pay for food in cash. Its use would be restricted to the weekly socialist jamborees organized by the Caracas Mayoralty. One Caribe would be equivalent to one Sovereign Bolivar.

...is trying to spread its wings. The political party *Patria Para Todos* (PPT) submitted a proposal to the so-called Constituent National Assembly to pass a law establishing the use of the Caribe as a means of payment for all types of transactions in competition with the bolivar. This is somewhat different to other failed attempts at establishing an alternative currency, the Panal, for example.

Deploying manpower. The president of the Central Bank of Venezuela, Ramón Lobo, announced that the Central Bank will start its information campaign about the monetary redenomination in May. As for Freddy Bernal, he offered 32,600 of his “CLAP communicators” to help with the campaign.

“Fatherland” telecommunications. A high proportion of the population receive monthly transfers from the government via their Carnet of the Fatherland, but the use of these funds is limited to the staples distributed by the CLAPs or items sold at socialist grocery stores. Now the use of these funds has been extended to payment of CANTV and Movilnet telephony services and the purchase of telephones from these companies.

Two more bonuses. President Maduro approved the creation of two new bonuses to be transferred to members of the Carnet of the Fatherland system. They are a monthly bonus for “National Talent” to be transferred to “artists, exponents of culture and scientists,” and a one-off bonus for “Independence Day.”

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Av. Blandín, C.C. Mata de Coco, piso 5, oficina 5-E, La Castellana, Caracas, 1060, Venezuela.
(+58 212) 266 9080 / Fax (+58 212) 266 5119 / RIF J-31130403-7

Year 14. Number 15 Week IV
April 2018

Pensions < Bonuses. President Maduro announced that the payment of 735,000 new pensions for the months of February, March and April had already been deposited. He highlighted the fact that the pension transfers are less than the amounts for all the socialist bonuses, except for the “Household of the Fatherland” bonus in some cases.

Structural robbery. Vito Vincenslao, the vice president of National Commerce and Services Council (Consecomercio), claimed that between 2,700 and 3,000 head of cattle (including buffalo) are stolen every week in Apure. He said that while sometimes the animal is stolen to smuggle it over the border to Colombia to sell it there, at others it is stolen for consumption in nearby communities.

Now there'll be no more batteries. The Superintendency for the Defense of Socioeconomic Rights (Sundde) has been inspecting stores that sell Duncan car batteries on the grounds that they are discriminating among customers when they ask for a used battery as a condition of sale. They ordered the chain to freeze its prices.

No seats out of here. Humberto Figuera, the president of the Airline Association of Venezuela (ALAV), said that, since 2013, the economic crisis has caused an 80% reduction in the number of seats on international flights; out of the 51,100 seats available five years ago, only 10,200 are left today.

Crypto-taxes. Hugo Martínez, the mayor of Zamora Municipality, recently signed a joint agreement with the Superintendency of Venezuelan Cryptocurrencies and Associated Activities (Supcacven) on the legality of digital cryptocurrency mining. There is now an agreement under which discounts will be allowed on tax payments if those payments are made in a cryptocurrency, including the Petro.

WORLD ECONOMY TIPS

Worse than it looks. According to the managing director of the International Monetary Fund (IMF), Christine Lagarde, the threat of a trade war between the United States and China would have a modest direct impact on the global economy. She did note, however, that it could have a much bigger indirect impact by creating an environment of uncertainty that would affect global investment flows.

A positive outlook. According to the Beige Book published recently by the US Federal Reserve (FED), the increase in consumer spending and the improvement in the labor market bode well for a positive outlook for the US economy, with the risk of a trade war being the only blot on the horizon.

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An unexpected upturn. Consumer confidence in the United States, as measured by the Conference Board, rose to 128.7 points in April from 127 points in March. This result contrasts with the 126 points forecast by analysts.

Home sales up. In March, sales of new single-family homes in the United States went up by 4% year-on-year to 694,000 units, compared to forecasts by analysts of growth of 1.9% and a total of 630,000 units sold.

Thanks to growth. According to data published by Eurostat, the public debt in the euro zone fell by 2.3 percentage points of GDP to 86.7% in 2017. At the same time, the public debt fell to 0.9% of GDP from 1.5% in 2016. The key to the improvement in both indicators was apparently the 2.4% growth in economic activity posted in 2017, the best result in a decade.

Dragged down by services. Confidence in Germany's business circles fell for the fifth month running in April to 102.1 points from 103.3 points in March. The sector that was most affected was services, which was included in the indicator for the first time. On the other hand, construction obtained a record result thanks to the high demand for real estate.

Activity stays strong... Japan's Purchasing Managers' Index, as measured by Markit, went up to 53.3 points in April from 53.1 points in March. This means that the index has remained above the 50-point threshold for 20 months in a row.

...but future prospects look gloomy. Confidence in Japan's manufacturing sector, as measured by Reuters-Tankan, fell by 7 points in April to 21 points. This result is the third month in a row that this indicator has dropped. The increase in the value of the yen and higher oil prices are the main factors behind this drop.

Year highs. Mexico's General Economic Activity Index (IGAE) went up by 0.7% in February compared to January, driven by services and industry but dragged down by a drop in agriculture. Year-on-year, growth was 2.4%, the biggest increase in the series since August 2017.

Inconsistent performance. Consumer performance in Brazil, as measured by the Getulio Vargas Foundation, fell 2.6 points in April to 29.4 points, after having gone up 4.6 points in March.

An improvement from last year. In February, Colombia's trade deficit shrank by 28% compared to a year ago to USD 548.4 million. This result was due to an 8.3% increase in

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exports in the month versus an increase of only 0.1% in exports. However, the deficit was slightly higher than the USD 518.4 million posted in January.

POLITICAL TIPS

Let the games begin. This Sunday saw the start of the campaign for the presidential elections to be held on May 20. The candidates are President Nicolás Maduro, former Governor of Lara Henri Falcón, Javier Bertucci, an evangelist pastor, Luis Alejandro Ratti, a businessman, and Reinaldo Quijada an engineer.

Protecting the future. In a speech given in Bolívar state during the opening of his election campaign tour, Maduro said that they were “*getting ready to consolidate a productive and sovereign fatherland in the next six years of government.*” He also called on his sympathizers to get 10 million votes for him.

Changing the future. As for presidential candidate Henri Falcón, he revealed his plan for governing the country. With dollarizing wages as its spearhead, the former governor of Lara state also highlighted the recovery of oil production via private investment, renegotiating the debt, and opening a channel for humanitarian aid.

Bertucci’s 12-point plan. Presidential candidate Pastor Javier Bertucci presented his plan for governing the country, which included plans on the economic, political and social fronts.

What is he proposing? Bertucci commented that the solution to the economic situation involves “*activating the production apparatus.*” Furthermore, he does not agree with the proposal of dollarization, although he does consider that “*the dollar should be used as a benchmark.*” Other points he mentioned were the need for the five branches of government to get back their autonomy and for Venezuela to reestablish relations with all the nations in the world.

On a crusade of her own. María Corina Machado, the national coordinator of the movement *Vente Venezuela*, set out on a tour of the country to promote the resignation of President Nicolás Maduro. Machado claims that this plan is in line with the referendum held on July 16, 2017.

Everyone go vote! The director of the National Electoral Council (CNE), Tania D’Amelio, stated that no campaigns to discourage people from voting at the May 20 elections would

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be allowed, as established in the Electoral Processes Act (LOPRE) and the Special Election Campaign Regulations for the 2018 Elections.

Eight “in the bag.” The former governor of Carabobo state and currently a member of the Constituent National Assembly, Francisco Ameliach, said that Nicolás Maduro would get at least 8 million votes, according to a pollster whose name he did not reveal. Putting this figure in perspective, Maduro obtained 7.5 million votes at the 2013 presidential elections.

Starting off with an advantage. Citing the unnamed pollster yet again, Ameliach claimed that the voting intention in favor of Maduro was more than 51%, whereas 30% of the opposition would opt for abstaining.

Don’t count on them. In a press release, the European Parliament announced that it would not take part in the Venezuelan presidential elections as observers, the reason being because “*they do not comply with the necessary conditions for credible, transparent and inclusive elections,*” adding that any country that did decide to take part would do so on their own initiative and that this decision would have nothing to do with the Parliament.

What does matter to him? Following statements made by the presidents of Argentina and Colombia in which they announced that they would not recognize the presidential elections in Venezuela, Nicolás Maduro said that he “didn’t care” if they recognized them or not.

Close ties. Nicolás Maduro paid a visit to Cuba to meet with the recently appointed President Miguel Díaz-Canel. The purpose of the meeting was to achieve greater economic integration between the two countries and thus “*renew hopes, dreams and look to the future.*”

An open door. The president of Panama, Juan Carlos Varela, stated that he would be prepared to have talks with Nicolás Maduro to solve “*the trade and diplomatic crisis between the two countries.*”

Forced repatriations. The United Nations High Commissioner for Refugees (UNHCR) published a communiqué on April 23 regarding the deportation of 82 Venezuelans from Trinidad & Tobago, among them some who had applied for political asylum and others who said they were refugees. High Commissioner Volker Türk clarified that forced repatriations are a violation of international law. The National Assembly sent a letter to Ambassador Paul Byam saying that it would take responsibility for the defense of these Venezuelans.

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Permission granted. The Supreme Tribunal of Justice in exile received the official document containing the National Assembly's approval for proceeding with the preliminary impeachment hearing against President Nicolás Maduro. The National Assembly not only urged the court to continue with the investigations, but to also make known any progress made.

It just exists. Chile's Foreign Minister Roberto Ampuero said that the Union of South American Nations (UNASUR) "*doesn't lead to anything. It does not help integration and is not capable of solving issues.*" These statements came following confirmation of the suspension of Chile's participation in this organization.

Just over half. Jesús Seguías, the president of Datincorp, said that, according to a poll conducted by Datincorp, the turnout for the upcoming elections has been estimated at 62%; however, it was not possible to say with any certainty that this would be the actual turnout, since it is expected that this figure will go up as election day approaches.

It won't be enough. According to Marcos Hernández López, the director of Hercon Consultores, presidential candidate Henri Falcón is in the lead by between eight and nine points. However, according to Seguías, that margin might not be enough given that the government's electoral machine has the support of the institutions and the impact that the abstention campaign might have.

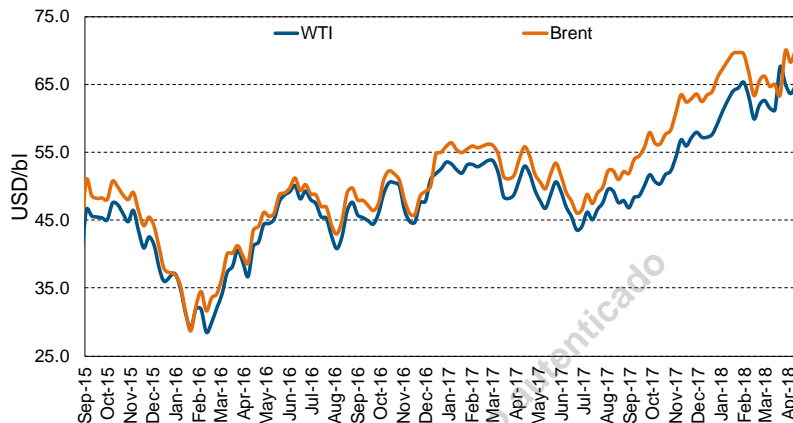
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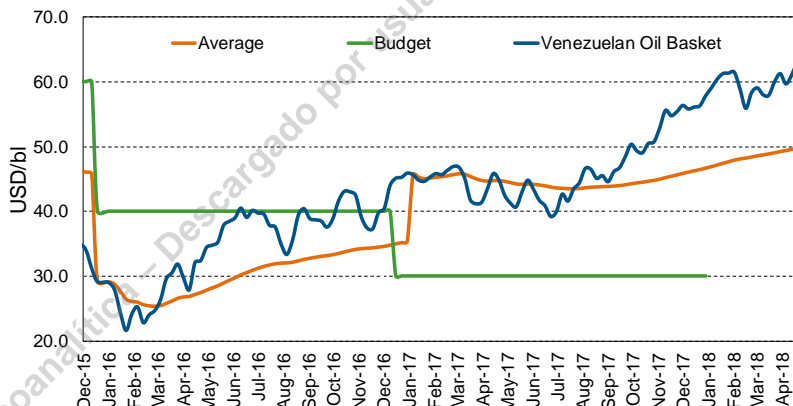
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



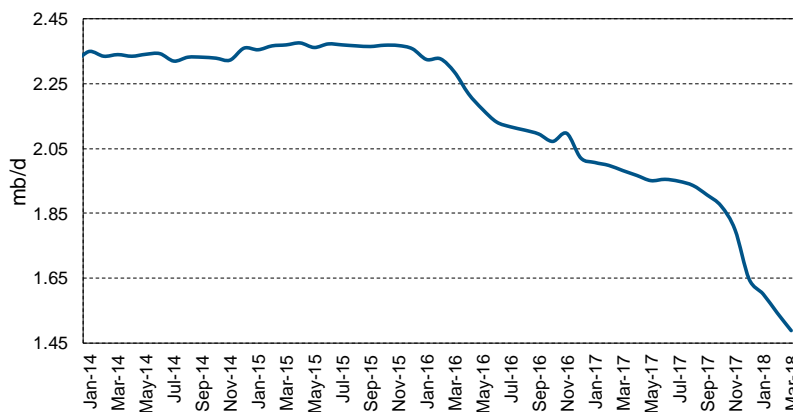
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

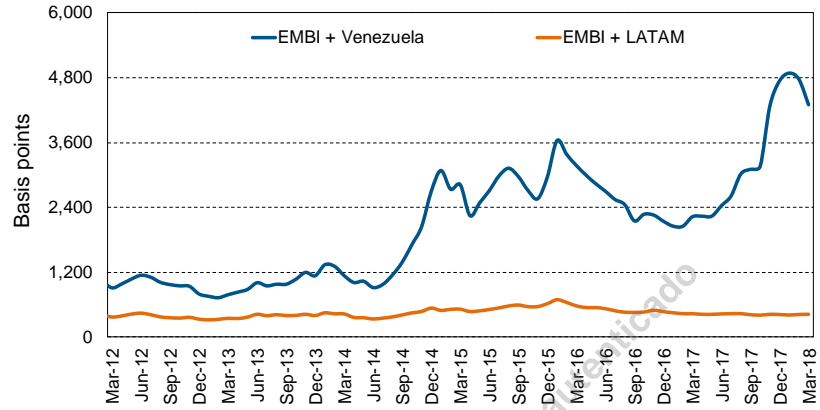
Oil Production (Secondary sources)



Sources: OPEC and Ecoanalítica

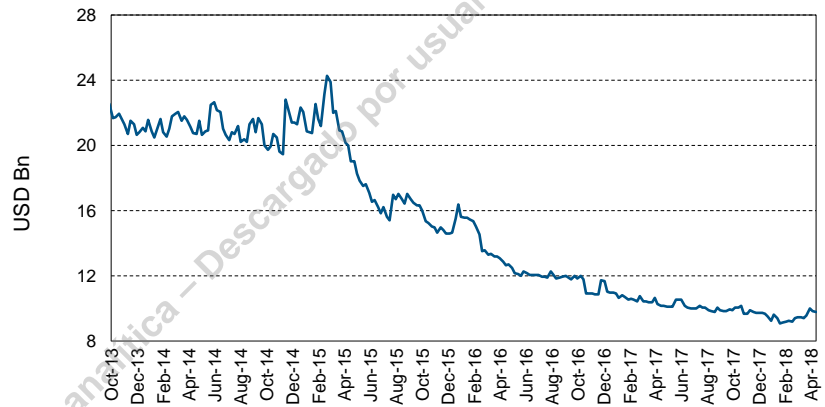
ECONOMIC INDICATORS

EMBI



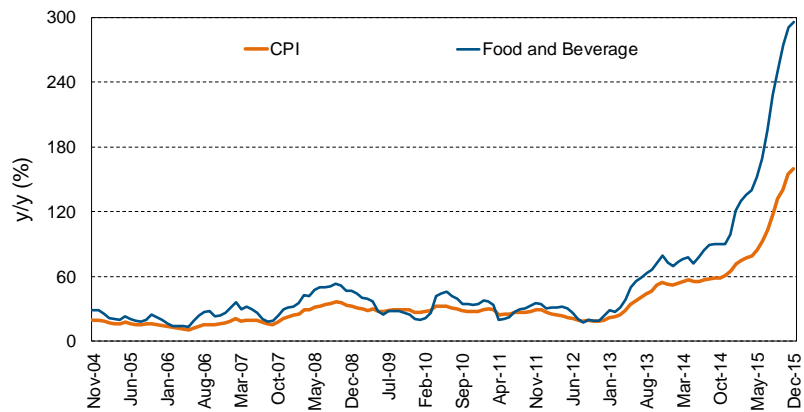
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

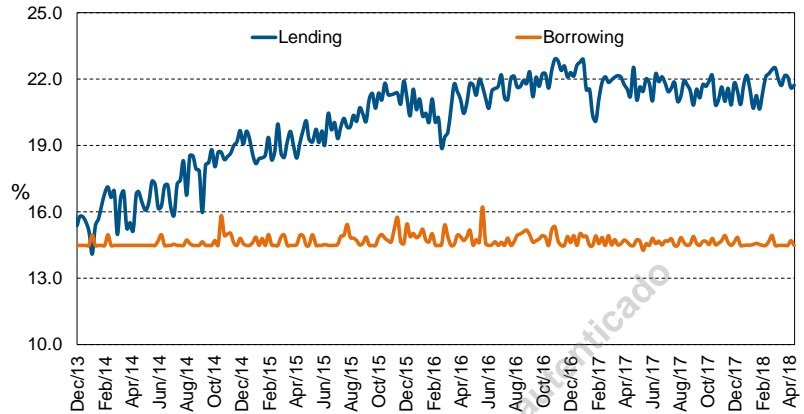
Inflation (BCV)



Sources: BCV and Ecoanalítica

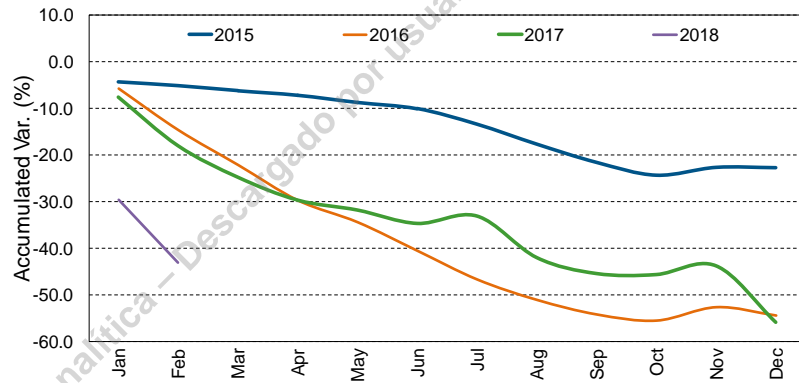
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



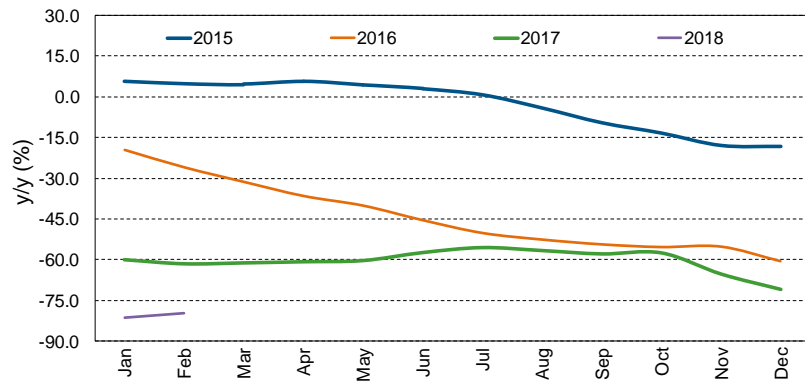
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

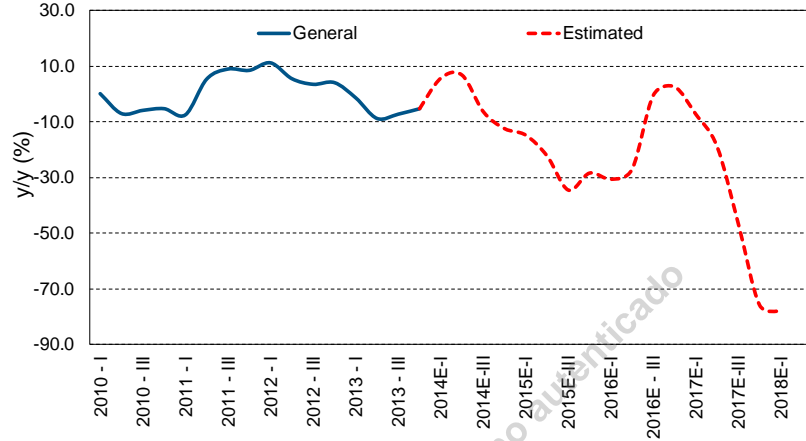
**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

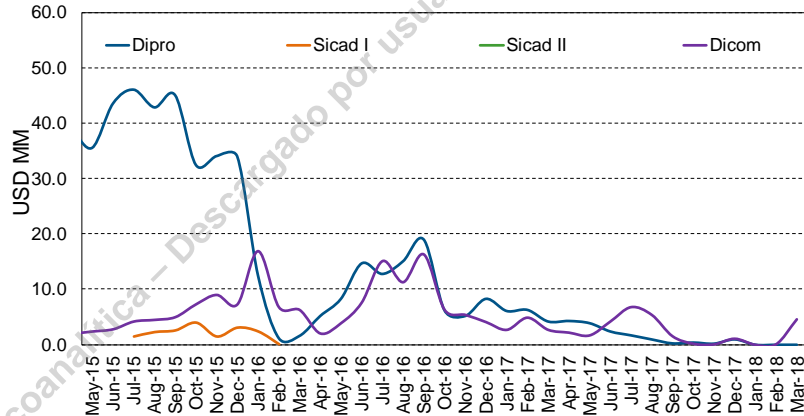
ECONOMIC INDICATORS

Real Wage Index



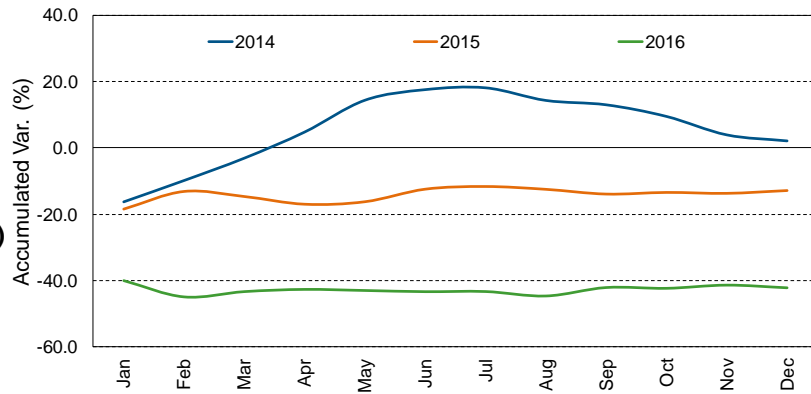
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

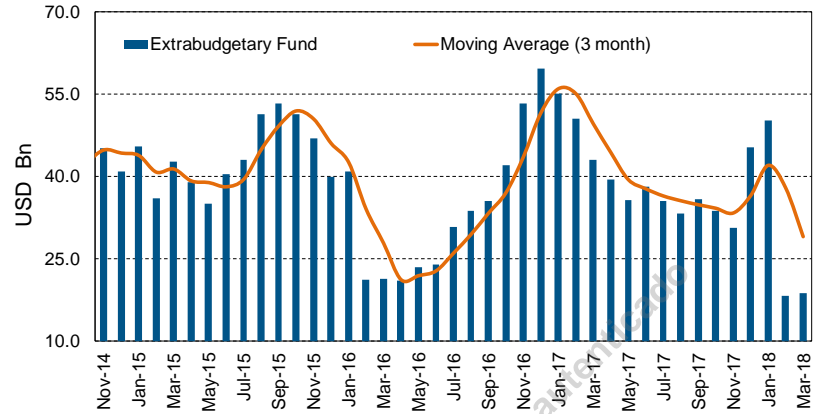
Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

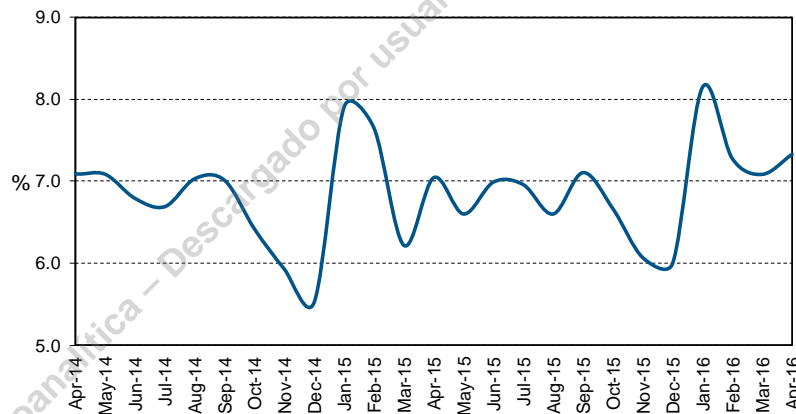
ECONOMIC INDICATORS

State Extrabudgetary Resources



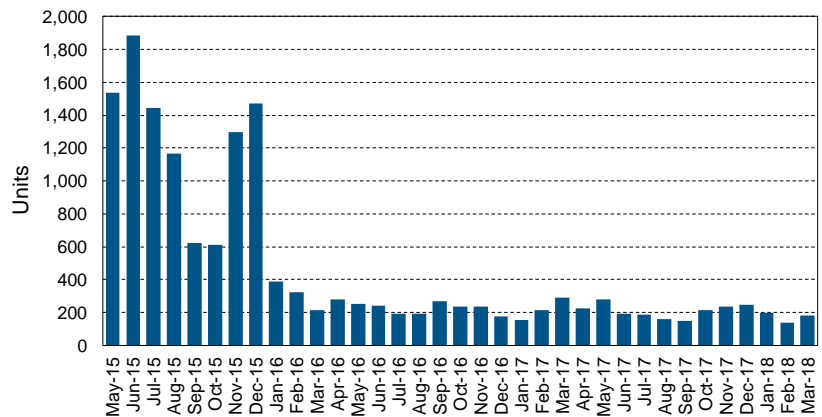
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

ECOANALÍTICA'S TEAM

Alejandro Grisanti / Director

alejandrog@ecoanalitica.net / @agrisanti

Asdrúbal Oliveros / Director

asdrubalo@ecoanalitica.net / @aroliveros

Pedro Palma / Director

pedrop@ecoanalitica.net / @palmapedroa

Cristina Rodríguez / Director

cristinar@ecoanalitica.net

Jean Paul Leidenz Font / Senior Economist

jpauill@ecoanalitica.net/ @jpleindezf

Armando Gagliardi / Senior Economist

armandogo@ecoanalitica.net / @agagliardio

Gorka Lalaguna / Economist

gorkal@ecoanalitica.net / @GorkaLG

Ana Isabel Heredia / Economist

anah@ecoanalitica.net / @AnalsaHP

Guillermo Arcay Finlay / Economist

guillermoa@ecoanalitica.net / @guillermoarcayf

RESEARCH ASSISTANT

Jhoan F. Castellano

Corina Fung

CONTACT US

Venezuela:(+58-212) 266 9080/ Fax: (+58-212) 266 5119

Estados Unidos: +1 (212) 994.1850

Ventas@ecoanalitica.net

www.ecoanalitica.com

@ecoanalitica