

## The day after tomorrow: PDVSA against the world

In some circles, the term “*black swan*” generally refers to a series of unexpected events that, in broad terms, generates a substantial impact in a given context. While unexpected *a priori*, when a *black swan* occurs it has the particularity that people assume that the conditions existed for it to happen: “It’s natural that it would happen,” is what they commonly say when analyzing these events.

Given that it is an essentially oil economy, Venezuela is constantly exposed to events of this type: internal and external shocks as unexpected –initially- as they are decisive. Curiously -and putting in doubt its uncertain nature-, perhaps the most relevant black swan for the Venezuelan economy in the next few years will be the battery of sanctions imposed on the Nicolás Maduro regime by the United States Government on January 28 this year.

For an economy whose tempo is connected to the rate at which oil production is declining, the drama of hyperinflation and the collapse of the State, the closing down of commerce, from which 61.1% of its cash flow came in 2018, move the humanitarian crisis into a new phase.

Given this state of affairs, this report seeks to describe the past three months in which PDVSA has been in a race against itself –and against the rest of the world- and Venezuela’s immediate situation on the external front, in particular with regard to the trade balance; and last of all to outline a potential route map regarding sanctions, with particular emphasis on the oil sector.

### Chronicles of an announced sanction

*“The United States will not stand by as Venezuela crumbles”*  
Donald Trump, July 2017

With these words, the President of the United States, Donald Trump, introduced the real possibility of his government imposing a series of “*swift and firm*” sanctions on the Nicolás Maduro regime (in response, at that time, to the installation of the Constituent National Assembly). The cryptic nature of the communiqué invited speculation regarding the battery of measures, whose scope, *a priori*, appeared to be broad.

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Since then, at **Ecoanalítica** we have undertaken the task of making sense of the potential –and real- architecture of the sanctions as well as their impact on how the crisis evolves. From the inherent impact of imposing restrictions on the regime’s financial operations on the international front to the structure of a potential embargo on the oil industry, we have warned of the rigidities that actions of this type -essentially a consequence of the regime’s systematic transgression of democratic rules- impose on Venezuela’s external situation.

Halfway through 2017<sup>1</sup>, we commented that, out of all the options on the table, based on past experiences and the very structure of Venezuela’s economy, imposing certain restrictions on the trading of crude seemed to be one of the most complex, both from the analytical standpoint and from the point of view of their impact on the economy.

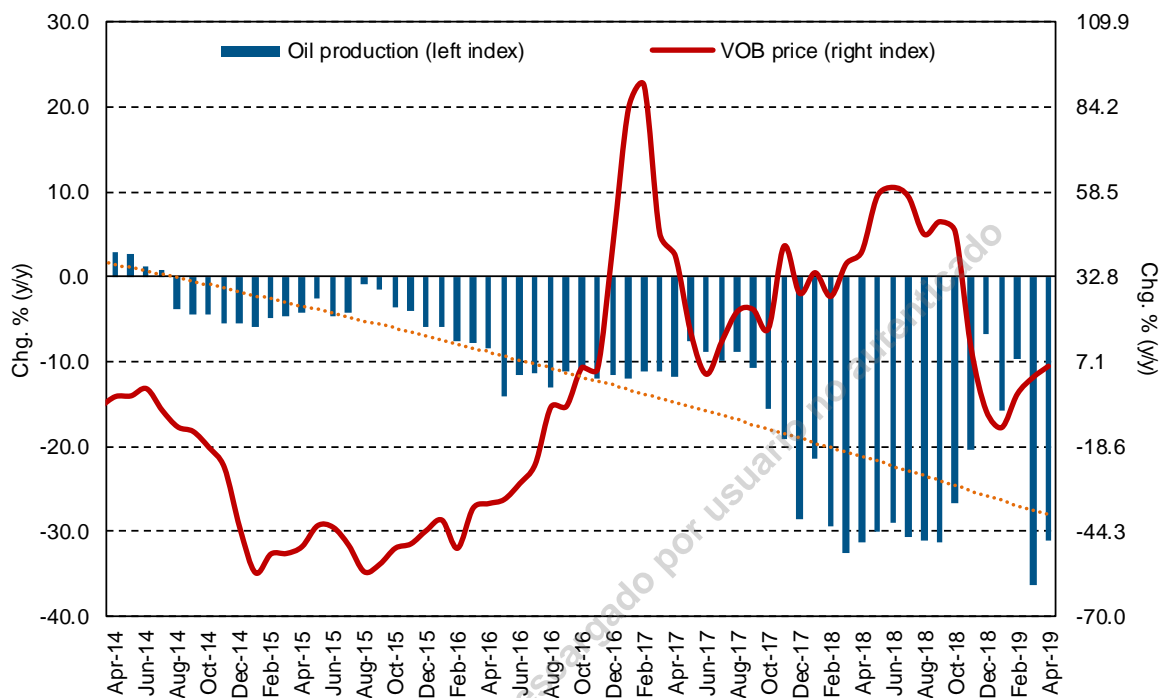
Broadly speaking, the relative weight of the United States in the generation of cash via PDVSA and the steady stepping up of external restrictions revealed how significantly vulnerable the Venezuelan economy is to a measure of this type. However, despite this threat (a credible one), PDVSA –and with it the Maduro administration- has not managed to limit its exposure to the United States; quite the contrary.

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<sup>1</sup> See *Nota de Coyuntura No. 7, 2017: “Sanciones: una amenaza creíble con efectos devastadores”*

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### Oil production vs. Venezuelan Oil Basket



Sources: Pdvsa, Minpet and Ecoanalítica

First of all, the overall collapse of the oil industry makes the suspension of any trade flows hugely dramatic. Despite an average increase in the price of the Venezuelan Oil Basket in 2018 of 36.7%<sup>2</sup> (USD 62.2 per barrel (/bl.) on average in 4Q2018), in the space of 12 months oil production posted a drop of close to 567,000 barrels a day (567 kb/d) or 27.2% -579 kb/d, if we take figures from the secondary sources consulted by the Organization of Petroleum Exporting Countries (OPEC).

However, even though the drop in oil production has resulted in a contraction –albeit asymmetric<sup>3</sup>– in aggregate exports, the pace at which PDVSA generates cash is due to

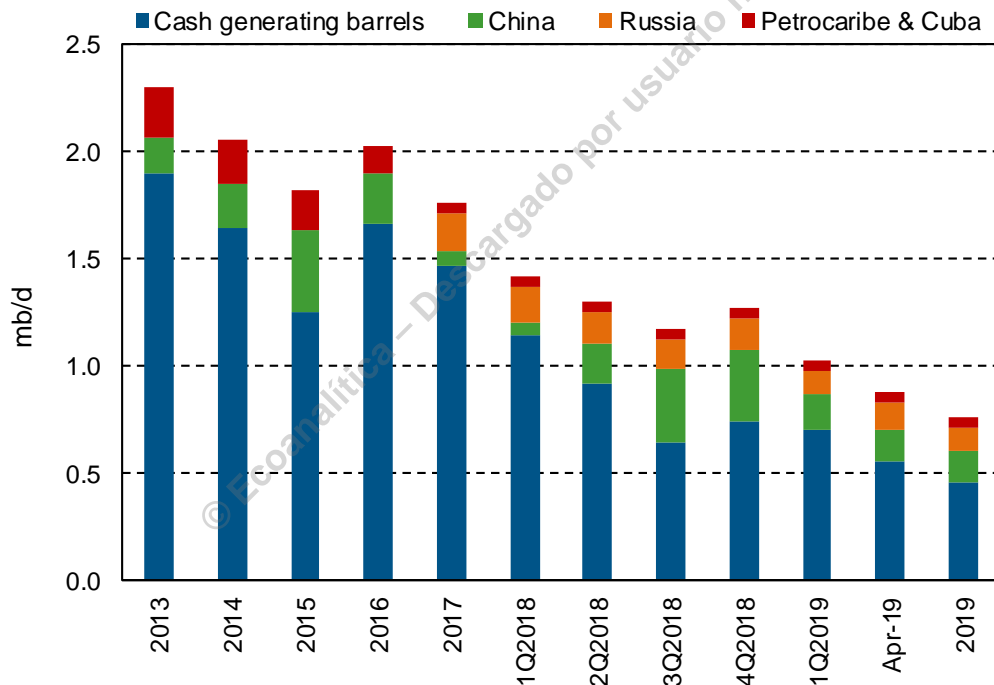
<sup>2</sup> Year-on-year

<sup>3</sup> Even though oil production is experiencing a steady and significant decline, the contraction in domestic consumption as a result of a dramatic reduction in economic activity (-50.5% in a matter of five years) has freed up barrels that can be used for export. This means that, in this context, the drop in exports will be less than the drop in production.

a series of other factors that fall outside an analysis that focuses exclusively on the drop in production<sup>4</sup>.

If we take constant shipments of 50 kb/d under the different energy cooperation agreements (Petrocaribe, Cuba, and so on) and take into account scheduled servicing of the debt with Rosneft and China (259 kb/d on average), cash-generating barrels would have averaged close to 949 kb/d in 2018, 513 kb/d (35%) less than in 2017. On the other hand, if we take what has happened more recently as our benchmark, we find that they averaged close to 939 kb/d in 4Q2018, down 454 kb/d (-32.6%) from the moment in which the first set of financial sanctions went into effect (3Q2017).

### Crude oil exports composition



Sources: Pdvs, Mefbp and Ecoanalítica

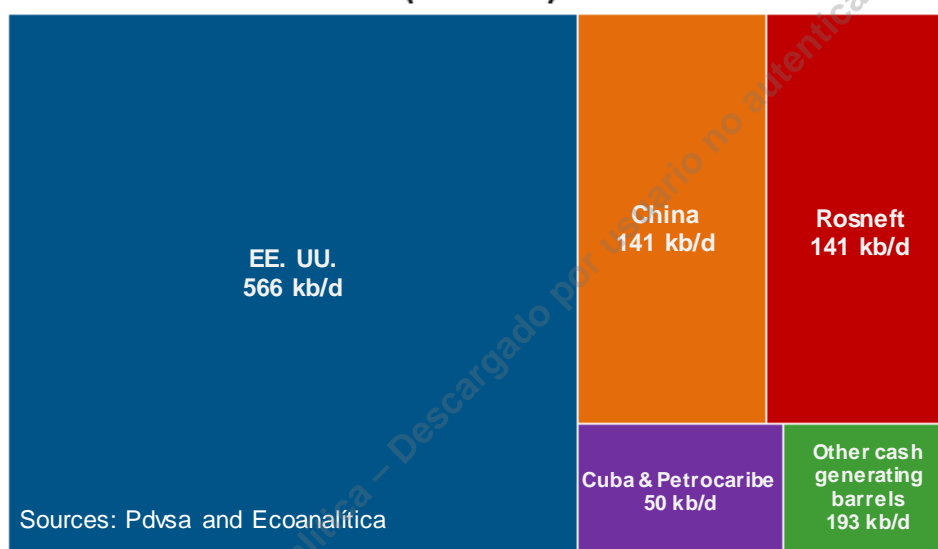
The importance of this new battery of sanctions and its weight in possible developments on the political front in the short-term stems from the details of these figures. The United States accounts for an increasingly larger proportion of cash-generating barrels, which

<sup>4</sup> In broad terms, to get a better idea of the level of exports that, essentially, result in cash for PDVSA, we have deducted the barrels sent to China and Russia (Rosneft) in payment of debt servicing and also shipments made under the different energy cooperation agreements (Petrocaribe, Cuba, etc.) from aggregate exports.

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are significantly less than in previous years. According to our estimates, crude exports to the United States went from accounting for close to 42.3% of the total in 2013 to 46.1% in 2017, and to 60.2% in 4Q2018<sup>5</sup> -with a maximum of 74.7% in 3Q2018. In other words, USD 6.2 out of every USD 10 PDVSA receives from selling crude abroad comes from US companies.

### Crude oil exports composition (4Q2018)



In addition, given a basket of exportable crudes that has become increasingly heavy in recent years, the importing of diluents from the United States has taken on a crucial role in PDVSA's operations dynamic and in the country's own energy matrix, accounting for nearly 146 kb/d in product imports between August and December 2018<sup>6</sup>, close to 90% of the total.

The surprising nature of a black swan is fundamental. Although in the opinion of many the sanctions were a natural –and foreseeable- outcome given the evolution of the political crisis, the way PDVSA has been acting seems to indicate the opposite.

Given the high probability of a situation where some kind of restriction on the sale of crude to the United States is imposed, why not gradually reduce the role of the United

<sup>5</sup> On average

<sup>6</sup> Latest available figures

States in the trade dynamic? Not only would this be potentially invaluable in strategic terms, it would also be consistent with the narrative proposed on the political front.

However, prior to January 28, at **Ecoanalítica** we were of the opinion that reorganizing PDVSA's trading structure, even in an environment where there were no sanctions, would be a complex task and that, if an embargo was imposed, the costs would not be minor ones. It is now two months since "the wolf" came to our door, and this narrative still prevails.

### Post-sanction Venezuela

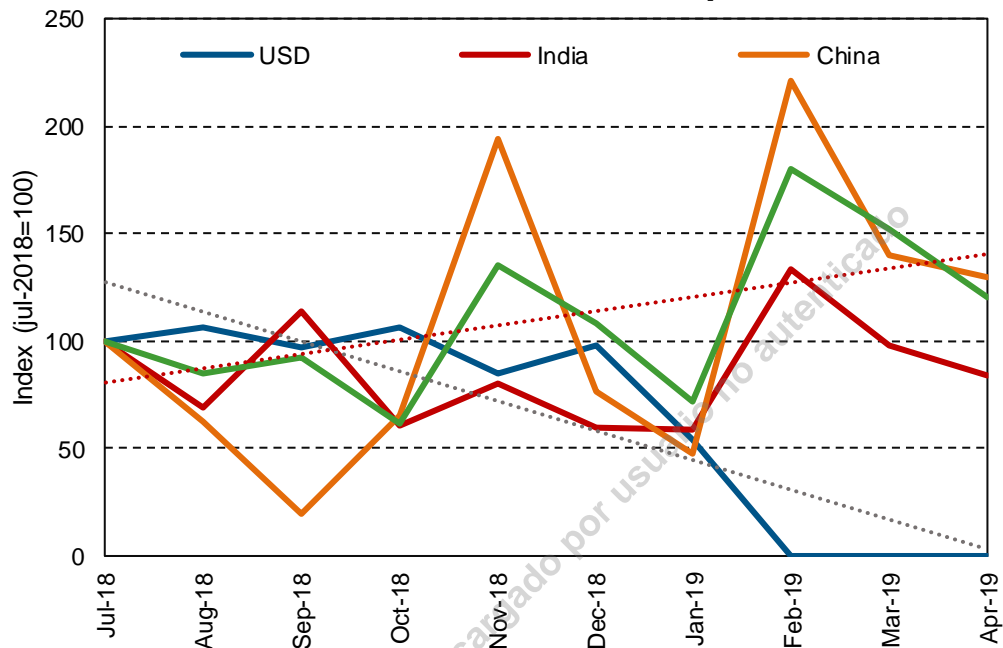
It is just over two months since the sanctions were first imposed, and we can conclude that there are six key elements as far as PDVSA's operations and Venezuela's external situation are concerned in a context where the United States is fast becoming a thing of the past in Venezuelan trade.

- The volume of exports –understood as the total number of barrels shipped abroad- has contracted steadily in the weeks following the sanctions (February-April).
- There has been a collapse in exports –measured in US- along with an unprecedented contraction in imports.
- Asia –with new actors such as Singapore- has taken on a leading role in PDVSA's flow of trade.
- There has been a substantial increase in crude-fuel import swaps, at a significant premium, with a view to maintaining the domestic market.
- PDVSA has accepted a significant discount on the sale of crude to certain trading partners (China and India, for example).

Perhaps the most relevant point in our analysis is how the government has reacted in terms of exports. According to figures published by Tanker Trackers<sup>7</sup>, exports of Venezuelan crude averaged 1.0 kb/d in 1Q2019, down 397 kb/d (28%) from the same period in 2018 and 250 kb/d less than the current average for 4Q2018. However, if we take the analysis to a more detailed level, we find that after January 28, crude exports fell by nearly 174 kb/d (14.8%) in February, 97 kb/d (9.7%) in March, and 23 kb/d (2.5%) in April compared to a year ago.

<sup>7</sup> Refers only to crude exports measured by tanker movements in the international market.

### Evolution of crude oil exports



Sources: TankerTrackers and Ecoanalítica

What is more, the picture has changed. Even though the increase in barrel terms has been less (45 kb/d<sup>8</sup>), India has taken on an even more relevant role in Venezuela's external situation. At the time of writing<sup>9</sup>, India accounted for nearly 29.4% of total exports, 13.3 percentage points more than in 4Q2018. Other players, such as Singapore<sup>10</sup> and some European countries, have appeared on the scene after 566 kb/d<sup>11</sup> were left without takers as a result of the sanctions.

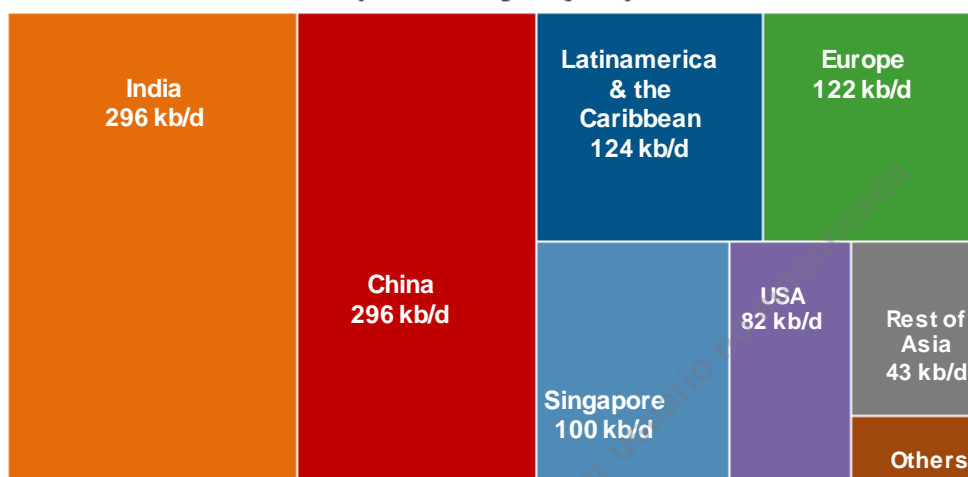
<sup>8</sup> In 1Q2019 compared to the previous quarter

<sup>9</sup> Average posted for April this year

<sup>10</sup> Generally speaking, Singapore acts as a storage and re-export center and is a key associate in relations with China.

<sup>11</sup> Exports of crude to the United States in 4Q2018, on average

### Crude exports composition (January-April)



Sources: TankerTrackers and Ecoanalítica

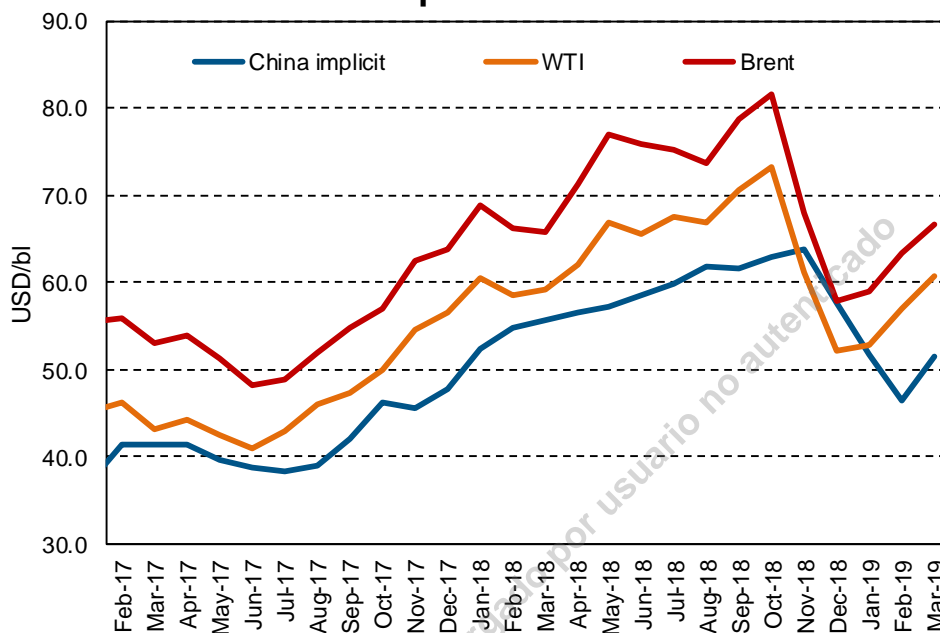
The impact this situation is having on the generation of cash is dramatic. Even given the contraction of shipments under the different energy agreements to which Venezuela is signatory –mainly to Cuba-, if we deduct the scheduled shipments to China and Rosneft (266 kb/d) to partly service debts, we find that cash-generating barrels came to around 705 kb/d in 1Q2019, down 234 kb/d (24.9%) from 4Q2018 and 331 kb/d (33.1%) less than the average in 1Q2018.

The deterioration in terms of revenues is not limited exclusively to a contraction in the volume exported. Given the restrictions imposed by its refining park on the flow of exports and its huge financing needs in foreign currency (an estimated USD 6.92 billion in 2019), PDVSA is now selling crude at a steep discount in the international market.

In fact, according to **Ecoanalítica's** estimates, in 1Q2019 China purchased Venezuelan crude at an average discount of close to 11.9% (USD 49.9/bl.<sup>12</sup>). This fact, given the estimated level of cash-generating barrels (1Q2019), resulted in an opportunity cost of close to USD 150 million (USD 611 million if this continues throughout 2019).

<sup>12</sup> At **Ecoanalítica** we have made an effort to estimate the losses incurred by PDVSA as a result of discount sales to China. In broad terms and based on information published by the **China Customs** General Administration on imports from Venezuela in terms of volume and value (USD), we are able to obtain the implicit purchase price of a specific number of barrels in a given month.

### Oil price indicators

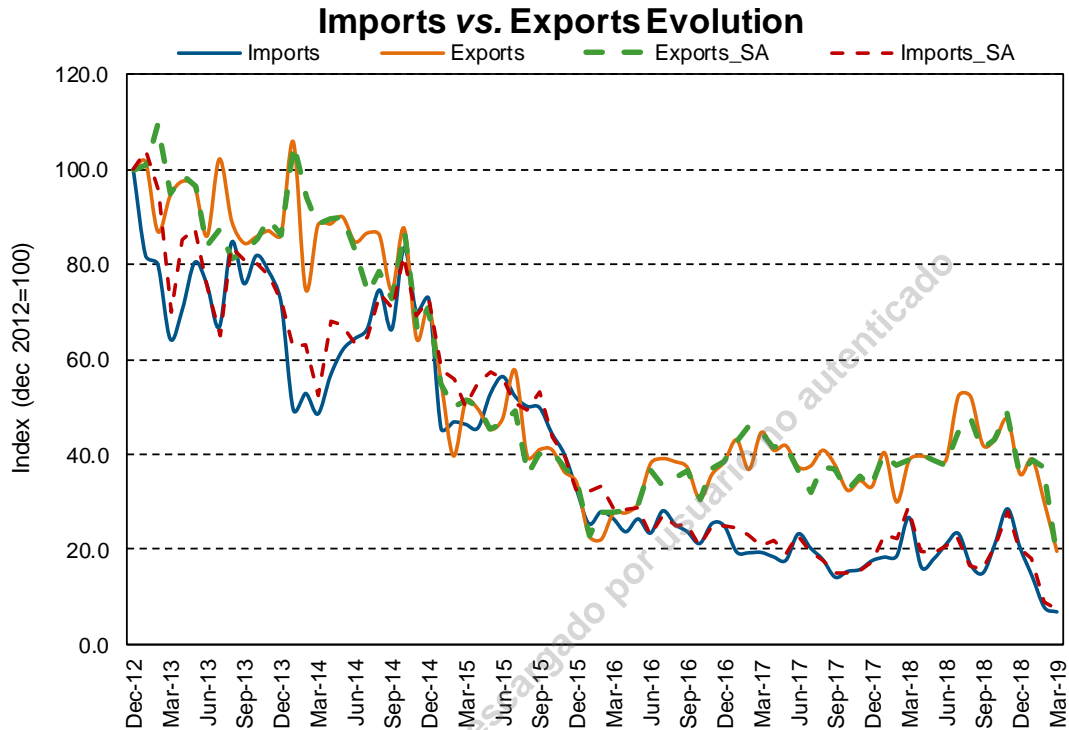


Sources: Menpet, General Administration of Customs of China and Ecoanalítica

The overall impact of this situation is not a minor one. Given a collapse in exports – understood to be in USD-, the political situation and the difficulties in selling off a part of the country’s precarious position in external assets, imports in March were the lowest posted in the past 15 years.

Following a drop of close to 4.2% between December and March in exports –7.4% in March alone<sup>13</sup>-, imports contracted by around 8.8% in a matter of 30 days. However, if we take a broader look, we find that this is equivalent to a reduction of close to 6.5% compared to the same period last year and of nearly 77.5% compared to the same period in 2012.

<sup>13</sup> Year-on-year



Sources: Comtrade and Ecoanalítica

### What can we expect in terms of production?

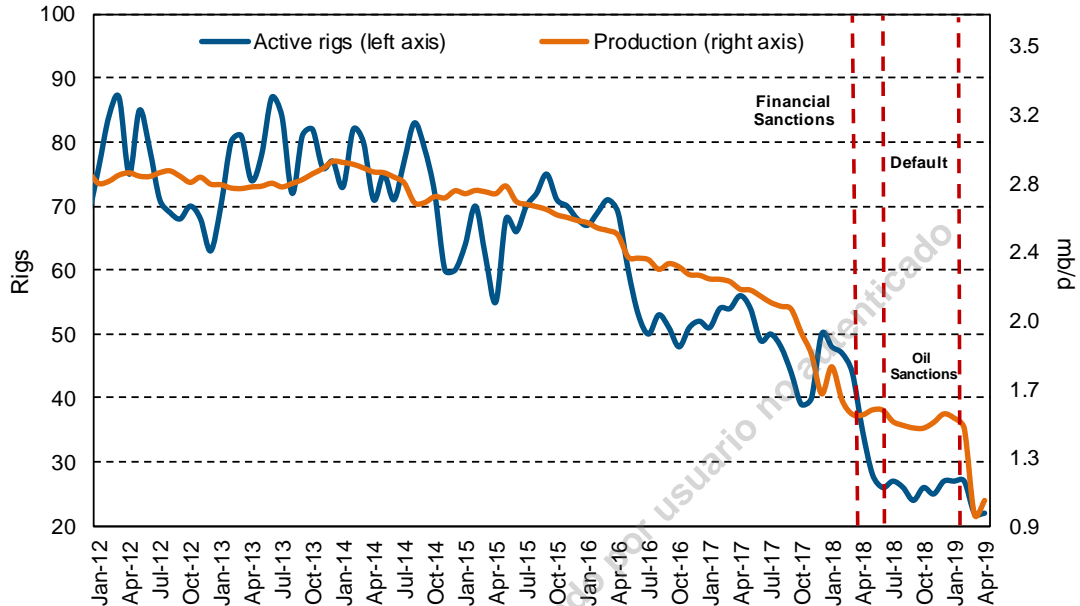
The situation in terms of production is dramatic. In only four months, oil production has posted an average monthly drop of nearly 119 kb/d<sup>14</sup> –395 kb/d since sanctions were imposed- and even dropping to as low as 960 kb/d in March.

<sup>14</sup> Based on figures reported to OPEC by PDVSA

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**Oil Production vs. Active Rigs**



Sources: OPEC, PDVSA and Ecoanalítica

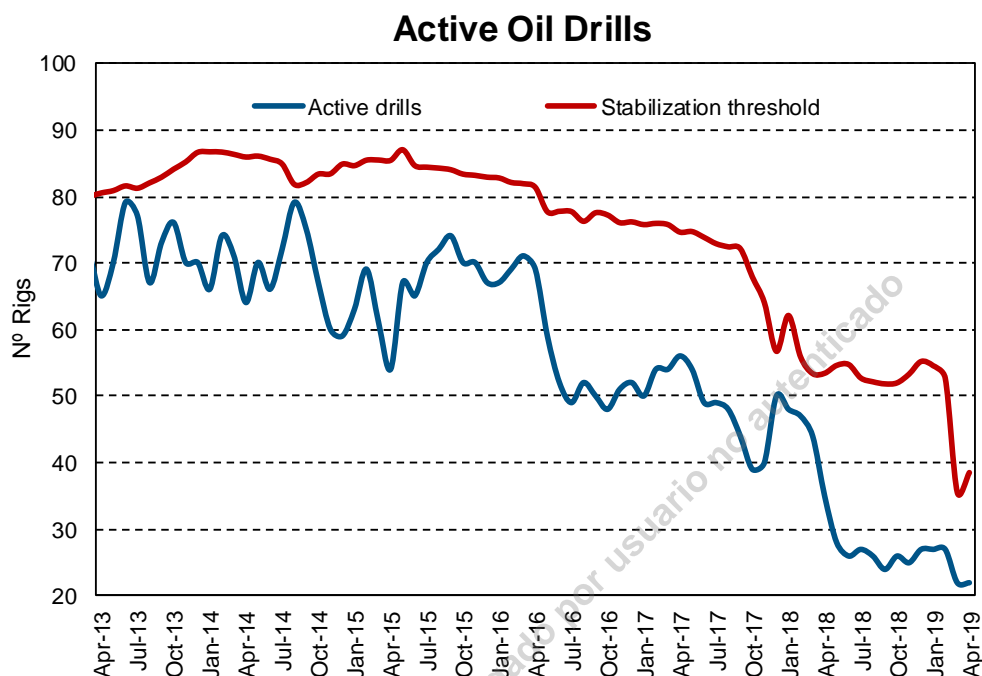
Subject to sanctions and embargoes and at the center of an economy that shrinks in a matter of hours and remains afloat in a sea of distortions, PDVSA does not have the institutional capacity to reverse the vicious circle represented by oil production that is collapsing due, in part, to the lack of resources that would make it possible to breathe new life into the industry. A simple analysis of how the number of oil rigs has evolved confirms this unequivocally.

According to our calculations, rigs currently operating in Venezuela are 22 units (59.7%) below the number needed to maintain production of close to 1.5 mb/d, 50 units (69.5%) below what would be needed to aim for production of close to 2 mb/d, and 64 units (74.3%) below what would be needed to achieve production of 2.8 mb/d.

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Sources: Baker Hughes and Ecoanalítica

PDVSA is trapped. Faced with exports that are declining daily as a result of the difficulties inherent in reorganizing its trade flow (and other restrictions imposed by the socioeconomic situation) and the value of which shrinks as the state-owned oil company is forced to negotiate on more unfavorable terms, at **Ecoanalítica** we estimate that Venezuela's oil production will fall by close to 580 kb/d (38.4%) in 2019.

In addition, we calculate that the rate at which production falls will increase considerably in the last nine months of the year if a solution is not reached on the political front that will allow a transition in Venezuela. As a result of the difficulties posed by positioning its crude in other parts of the world, PDVSA has been stockpiling crude offshore on tankers and in other facilities set up for that purpose. However, storage capacity in this context is as finite as it is variable and, once exhausted, the impossibility of exporting, consuming or storing crude will put strong downward pressure on oil production.

Similarly, the widespread failures of the electricity system, consisting of a series of nationwide mega power outs, have considerably affected PDVSA's operations, from the production process<sup>15</sup> to the distribution and exporting of crude and the refining park<sup>16</sup>. At

<sup>15</sup> Reuters. "Principal terminal de crudo y mejoradores de Venezuela detenidos por apagones: fuentes". <https://la.reuters.com/articulo/venezuela-apagon-petroleo-idLTA KCN1R82G0>

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**Ecoanalítica** we are of the opinion that, given the cash difficulties and the complications on the fiscal front in general, the sanctions, and the exodus of human capital the sector is suffering from, it is unlikely that access to electricity will cease to be a valid restriction in the short term.

Last of all, despite having ensured a certain flow of diluents and fuels<sup>17</sup>, the government faces major premiums<sup>18</sup> by going to the markets in search of both, as a result of US sanctions and threats, in a political environment that is becoming less and less favorable. Given the cash flow problems the industry faces, at **Ecoanalítica** we are of the opinion that it is unlikely that the government will manage to sustain sufficient imports to enable it to supply the domestic market and maintain oil production.

### From black swan to normal everyday life: What is in store on the sanctions front?

The situation is critical. Even though the impact will be felt in just over 60 days' time, some spokespersons of the Donald Trump administration claim that there is still some time to go before the January 28 sanctions hit. Moreover, and no less importantly, several representatives of the US Government do not rule out new measures aimed at hindering the flow of resources available to the regime.

Perhaps the key debate on this last point stems from the possible imposing of secondary sanctions on companies and other actors that decide to maintain operations with PDVSA in the broad sense. As **Ecoanalítica** sees it, even though it is likely that the sanctions against the Nicolás Maduro regime will be stepped up in the short term, this depends on a series of factors for which it is difficult to define an accurate scenario, at least at the time of writing:

1. **India plays a crucial role:** As we have stressed in previous reports, sanctions usually operate on two fronts simultaneously. Even though there is no decree, in the formal sense, that restricts in any way the buying of Venezuelan crude by Indian companies, whether state- or privately-owned, the different calls made by

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<sup>16</sup> Reuters. "EXCLUSIVA- Mejoradores petróleo de venezolana Pdvsa se preparan para baja producción: documentos, fuentes". <https://lta.reuters.com/articulo/venezuela-petroleo-mejoradores-idLTAKCN1RG30T-OUHLT>

<sup>17</sup> Bloomberg. "Russia comes to Maduro's rescue after US sanctions hit". <https://www.bloomberg.com/news/articles/2019-03-04/maduro-gets-oil-lifeline-from-russia-after-u-s-sanctions-hit>

<sup>18</sup> On the price

US Government spokespersons have somewhat reduced Indian actors' willingness to continue doing business with PDVSA.

At **Ecoanalítica** we are of the opinion that, if the Donald Trump administration manages to reduce the shipments to India via informal channels, the pressure of imposing secondary sanctions will ease up, to the detriment of Venezuela's external situation.

2. *Oil production sets the pace:* As oil production –and with it exports- continues to collapse, we estimate that the rate or speed at which the drop in production occurs will play a key role when it comes to bringing more pressure to bear on the Nicolás Maduro regime.
3. *The future in the political arena:* The governing coalition has the last word. To the extent that it continues to infringe democratic norms and increases censorship and repression, among other things, the US Government will seek to increase the pressure to speed up the transition and try to maintain itself as a credible threat in the eyes of the regime.

Although the net outcome of these effects is uncertain, Iran and the battery of sanctions that have accompanied it over the past 20 years can help us put together a potential route map for what the next steps could be following an embargo such as the one imposed on Venezuela's oil sector a few months ago.

4. *Imposition of quotas in the international market:* In the case of Iran, the US-European coalition managed to restrict the sale of Iranian oil to only six destinations (China, India, Japan, South Korea, Taiwan, and Turkey) and even to freeze the aggregate volume of sales.  
In the case of Venezuela, the United States could, by means of formal and informal threats of secondary sanctions, confine Venezuelan trade with certain specific actors –India, for example- or simply impose a kind of quota in line with a target in terms of overall exports.

As we have mentioned on previous occasions, the United States used all the power inherent in being the world's main economy to prevent Iran from getting around the sanctions by resorting to other latitudes. In other words, Venezuela's natural allies, such as China and India, despite playing a fundamental role in the global demand for crude, decided to help the US-European coalition in applying the sanctions against Iran.

5. *Restrictions on the use of oil revenues:* According to the legislation stemming from the sanctions, all revenues from the sale of hydrocarbons to those six countries have restrictions on their use: Iran may only use them to buy goods of a

humanitarian nature (in any part of the world) or to buy any other type of good from those countries to which the crude was sold.

6. *Restrictions on the transporting of crude and other goods:* According to the sanctions imposed by the United States and the European Union, different firms are banned from providing insurance and reinsurance to oil companies operating in Iran, including tankers. The sanctions also forbid the buying of vessels by shipping companies and shipbuilding industries. As **Ecoanalítica** sees it, given the structure of the oil business, this measure could have a significant impact in a relatively short space of time.

### Hunger today, hunger tomorrow

The stage is set and the cards have been dealt. The situation described in this article points to the oil industry being exposed to an unprecedentedly dramatic scenario that threatens to drag the country down to new depths unless a transition to a democratic scheme of government is achieved. Every day matters. Time is of the essence.

**Gorka Lalaguna**

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week May	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VES/USD)	5,256.12	1.0	1.0
	1st Week May	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	29.9	-0.6	8.8
	3rd Week May	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	108.8	22.8	108.8
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.2	-4.2	-20.1
	1st Week May	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	5,377,198	3.4	68,942.9
Price of International Oil Baskets (USD/bl)			
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
WTI	61.9	-2.1	-12.1
Brent	70.6	-2.0	-7.3
Price of the Venezuelan oil basket (USD/bl)			
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
Weekly Average	64.0	-2.3	-3.8
Annual Average	59.8	0.4	-1.4

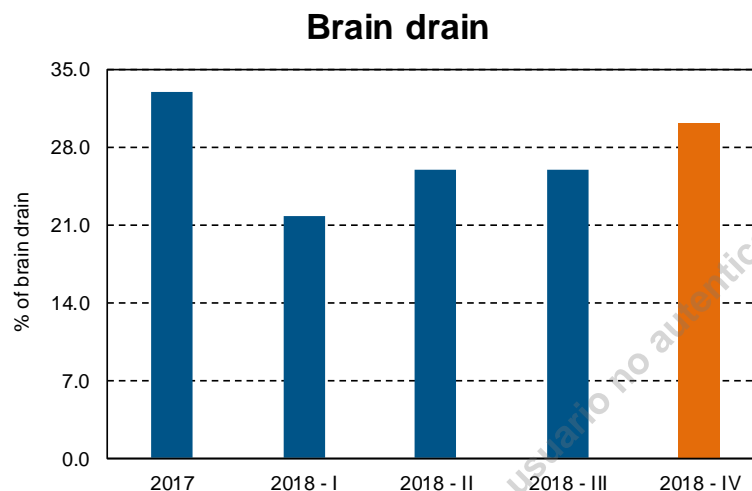
Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

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

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**GRAPH OF THE WEEK: “THE DARK SIDE OF MIGRATION”**


Sources: Conindustria and Ecoanalítica

According to the latest report by the International Organization for Migration (IOM), the number of people who emigrated from Venezuela in the last year came to around 2.4 million. In a context in which hyperinflation could get worse, domestic production continues to decline, and real wages are turned to dust, it is highly likely that this number will increase in 2019.

Emigration has many effects on a country, but an imminent consequence is undoubtedly the loss of qualified labor. The data obtained by the Private Sector Survey conducted by the Venezuelan Confederation of Industrialists (Conindustria) reveal that qualified jobs fell by 33% in 2017 and that in the fourth quarter of 2018 they had fallen by 30.1%. As for Docquier and Rapoport (2007)<sup>19</sup>, they make special mention of the impact of migration as a source of the loss of qualified jobs in poor countries. In particular, they highlight how this exodus produces a greater loss of human capital and a reduction in the productivity of local labor if the proportion of unqualified labor far exceeds the existing specialist labor force. In the medium term we foresee that the loss of productivity of labor in Venezuela could become more acute as migrations accelerate.

<sup>19</sup> Docquier F y Rapoport, H (2007). Skilled Migration: The Perspective of Developing Countries. IZA Discussion paper n°. 2873. 43 pp.

**ECONOMIC TIPS**

**April inflation.** The National Assembly published its nationwide consumer price index, which put inflation in April at 44.7%. It also reported that inflation compared to the same month last year was 665.9%.

**We'll have to wait and see.** On May 13, the new foreign exchange system between private agents and the banks went into force. Central Bank of Venezuela Resolution No. 19-05-01 authorizes the creation of foreign currency desks at private sector banks for the buying and selling of foreign currency.

**No longer so close.** According to data from the China Customs General Administration, trade between China and Venezuela fell in the first quarter of 2019 to USD 1.97 billion, down 11.4%, compared to the first quarter of 2018 (USD 2.23 billion).

**All because of imports.** The decline was caused by a sharp drop in Venezuela's imports from China. Venezuela purchased Chinese merchandise to the value of USD 195.87 million between January and March this year, for a drop of 42.2% compared to the same three months last year (USD 339.1 million).

**Currency Tables.** The first transactions of hard foreign currency in the bank's "Currency Tables" happened in May 13<sup>th</sup>. The first rate resulted in VES 5,262.6/USD, this rate has a 3,3% prime over the non-official exchange rate.

**Public vs Private.** The private Banks (Banco Nacional de Crédito, Banco Exterior y Bancaribe), negotiated at a rate of VES 5,571.1/USD. In the other hand, the established rate by the public financial sector was lower, being VES 5,189.6/USD.

**International Reserves.** The international reserves as at May 10 came to USD 8.2 billion, for a decrease of 4.2% compared to the previous week, when they came to USD 8.5 billion. They were down 20.1% compared to the same week a year ago.

**Money supply.** Money supply as at the first week of April was VES 5,3 trillion, for a nominal increase of 3.4% compared to the previous week and a cumulative increase of 518.7%.

**Last DICOM.** The last DICOM auction was the one held on the 10<sup>th</sup> May, which resulted in an exchange rate of VES 5,202.6/USD or VES 5,849.7/EUR, for an appreciation of the bolivar against the dollar of 0.001% compared to the last auction in March and an appreciation of 0.005% compared to the same day of the week last week.

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**Amounts disbursed.** The total amount disbursed at this auction was USD 20,225.6. Companies didn't obtain any foreign hard currency and the private individuals received USD 20,225.6 and EUR 6,908.2.

## OIL TIPS

**OPEC Report.** According to the latest report issued by the Organization of Petroleum Exporting Countries (OPEC), Venezuela's oil production in April was 1.03 million barrels a day (mb/d), up 77 kb/d from March. These figures are those obtained directly from PDVSA.

**The other side of the coin.** Secondary sources, as usual, provide different figures. According to them, production in April came to 768 kb/d, up 28 kb/d from the previous month. The difference between the figures obtained from secondary and primary sources is 269 kb/d.

**Improving?** Even though the figures from both sources show a recovery in production compared to March, it was not significant since it does not mean an improvement on February's production.

**Let's pay it.** The National Assembly authorized the administrative board of Pdvsa to pay the interest on Pdvsa Bond 2020, the only bond that is not in default. The amount in interest, which should be paid before May 29, comes to USD 71.6 million.

**How are they going to pay?** This crucial payment of PDVSA Bond 2020 will be made from an account with the New York Federal Reserve. The account at this branch of the US Federal Reserve is one of several available to Juan Guaidó, who set up an ad hoc board to administer the state-owned Pdvsa independently.

**Lawsuits and courts.** A court in the United States has granted a 120-day stay in the legal battle between PDVSA and the hedge fund Red Tree Investments. Red Tree is suing the Venezuelan oil company for USD 182 million for defaulting on its loan agreements. The debt that fell into default is for USD 8.0 billion, according to Reuters. The US court granted this breathing space due to the political situation Venezuela is facing.

**Aftermaths of the power outs continue.** According to the news agency Reuters, two of Venezuela's four refineries are still closed down following a month of nationwide power outs in March. It reports, furthermore, that, according to PDVSA documents

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issued last month, they do not expect Venezuela to be able to increase production significantly.

**They need maintenance.** Petromonagas, for example, needs a cleanup and repairs due to the fact that its furnaces were blocked by out-of-service products. On the other hand, it is unlikely that production at Petrosanfelix will be resumed in the short term. As for the other refineries, Petrocedeño has been producing at 99% of its capacity and Petropiar has exceeded expected production levels.

**Some improvements.** In the same document, Pdvsa states that the deficit of naphtha has been reduced. Last month the deficit was at 70.7 kb/d and now is at 46.3 kb/d. According to the document, this deficit was reduced thanks to a shipment of 1 million barrels that arrived in April.

**What's happening in Zulia, Part I.** The problems in the electricity sector have seriously affected the oil sector and its efficiency. Termozulia power station is in a process of recovery. This is critical for Pdvsa since it generates the electricity for extracting crude in the division around Lake Maracaibo.

**What's happening in Zulia, Part II.** Since the nationwide power outs, only 100 kb/d have been obtained from the Lake Maracaibo division, which has a capacity of 200 kb/d. In the 1990s, it was producing at least 1.0 mb/d, according to Argus Media. Corpoelec reports that it is working on solving the problem by installing 20 diesel power generating plants in Zulia.

**More than several countries together.** The State of Texas in the United States has been pumping more oil than all the member countries of the Organization of Petroleum Exporting Countries (OPEC), minus Saudi Arabia, for six months in a row, according to Global Platts. In December 2018, Texas was producing around 4.9 mb/d.

## BUSINESS SECTOR TIPS

**Will it be enough?** The Superintendency of Banking Sector Institutions (Sudeban) has issued a circular in which it establishes that the ceilings for points of purchase may not be lower than VES 2.5 million a day. It also establishes that the ceiling in the case of interbank transfers will be VES 10 million for private individuals and VES 100 million for companies.

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**Stopped education.** Venezuela's education sector declared a technical stoppage as part of a protest that took place in the western part of Caracas. Raquel Figueroa from the sector's labor union said that this protest and their declaration were a first step in a major nationwide protest.

**The same motives.** The reasons for the protest have to do with the socioeconomic conditions in the country that make it impossible to carry out teaching activities.

**The same reasons as always.** Figueroa mentioned the economic crisis, the collapse of basic services and the emigration of qualified personnel as the main difficulties the sector is facing and called for a solution that would put an end to the conflicts so that activities could get back to normal.

**During the stoppage** Marcos Iriarte, a representative of the Western Caracas Transport Union, said that the transport sector needed the usurpation to cease "*in order to be able to buy spare parts and to be able to eat.*" To that end, a total of 500 transport units are to take part in a stoppage that will escalate if these demands are not met.

**Deliveries continue, but so do the problems.** 34,580 kilos of corn were delivered to corn producers in Valles del Tuy. Frangelica Pérez, the president of the Municipal Development Institute, explained that 133 producers would benefit.

**Were they at least fresh?** The People's Power Ministry for Fisheries and Aquiculture (Minpesca) announced that it had distributed 4,639 tons of sea products since January. This was achieved via food fairs organized by the ministry, where they make sure that the products are sold at least 70% below the prices in the regular markets.

## WORLD ECONOMY TIPS

**From a position of strength?** United States President Donald Trump said that the talks with China would not be suspended. Following the meeting last week between US Treasury Secretary Steven Mnuchin and US Trade Representative Robert Lighthizer and China's Vice Premier Liu He, Trump said that the talks had been fruitful and that he hopes that trade relations will be developed on the same terms.

**Using uncertainty as a strategy.** He also commented that, while the United States had raised the tariffs on Chinese products, they could be lifted depending on the progress resulting from the negotiations.

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**Meanwhile, other opinions.** Economic advisor to the White House Larry Kudlow commented that the talks between China and the United States had stalled due to Washington's demands for concrete changes in Chinese laws, changes that were rejected by the Asian Giant.

**Quid pro quo.** In retaliation, China plans to raise its tariffs on a number of US products to the value of USD 60 billion. It will be remembered that last week the US Government took the decision to raise its tariffs from 10% to 25% on a number of Chinese products to the value of USD 200 billion.

**An agreement has always been necessary.** The Bank of England's Deputy Governor Ben Broadbent said that any delay beyond the latest 31 October deadline would damage the British economy due to uncertainty and expectations. He also said that these disagreements over trade had discouraged investment as never before since World War Two.

**Nothing concrete.** Meanwhile, Britain's Prime Minister and her ministers have only said that it was imperative to reach an agreement on the terms of Brexit before the summer recess of Parliament.

**More jobs!** In April unemployment in USA fell to 3.6%, the lowest in the past 50 years. This was due to the fact that 263,000 new jobs were generated in the month. What is more, wages grew by 3.2% compared to April last year, making this the ninth month in a row that wages have gone up by more than 3%.

**Revising figures downwards.** Brazil's minister for the economy announced that they had revised their growth forecast for Brazil downward to below 2%, highlighting moreover that the consensus among 100 financial institutions consulted by the central bank put growth at 1.5%.

**Giving growth a boost.** The minister added that he would request supplementary financing of USD 63 billion from the state-owned development bank BNDES in order to meet expenditures and avoid breaking fiscal rules. He also said that economic growth could reach 2% or 3%, if Congress passes the government's fiscal reforms, including a revision of the pension system.

**An upturn.** The gross domestic product (GDP) for Peru's industrial sector recovered in March when it posted growth of 3.7% compared to March last year. Production Minister Rocío Barrios highlighted that the March results marked a change in the trend following the contractions posted in January (5.6%) and February (1.3%) and that the new figure

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indicated that the sector was now on the path of recovery to achieve growth of 4% by the end of the year.

## POLITICAL TIPS

**Meetings with the United States, Part I.** Juan Guaidó's special representative in the United States, Carlos Vecchio, requested a meeting with Admiral Craig Faller, the commander of US Southern Command in an official letter sent on May 11.

**Meetings with the United States, Part II.** In the letter, Vecchio requested the admiral to start talks with a view to reaching an agreement on the cooperation offered with a view to restoring democracy in Venezuela and thanked the US Government for its willingness to support Venezuela's Acting President.

**Some say yes, others say no.** Nicolás Maduro's vice president, Delcy Rodríguez, criticized Carlos Vecchio's request for a meeting, claiming that their intervention in Venezuela was not going to happen.

**Testing the waters, Part I.** An armed US coastguard boat entered Venezuelan waters on May 10. Vladimir Padrino López claimed that this incursion into Venezuelan waters was a provocation and an insult to Venezuela.

**Testing the waters, Part II.** Padrino also explained that the US vessel was patrolling Venezuelan waters and that, in response, they had to mobilize the Armed Force's boats, ships and aircraft to assert Venezuela's sovereignty.

**Meetings between giants.** US Secretary of State Mike Pompeo and his Russian counterpart Serguei Lavrov are to meet in Moscow. The main items on the agenda will be Venezuela, Syria, and Ukraine. Russia trusts that the meeting will manage to "stabilize" bilateral relations.

**A witch hunt.** The Supreme Tribunal of Justice has declared seven opposition deputies of Venezuela's National Assembly to be in contempt for alleged treason and conspiracy following their participation in Operation Freedom on April 30.

**The names of the accused.** The accused are Henry Ramos Allup, Luis Germán Florido, Marianela Magallanes López, José Simón Calzadilla Peraza, Andrés Enrique Delgado Velázquez, Américo De Grazia, and Richard José Blanco Delgado.

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**Another one.** Deputy Edgar Zambrano, the first vice president of the National Assembly, was arrested by members of the Bolivarian National Intelligence Service (Sebin) after being intercepted by seven patrols and a tow truck towed his vehicle with him and three other people inside to the Sebin's headquarters at El Helicoide.

**Shadows and fear, Part I.** Responding to this measure, Deputy Juan Andrés Mejía said he was taking security measures to avoid being taken as a hostage of Maduro's after the Supreme Tribunal of Justice accused him of rebellion and asked that his parliamentary immunity be revoked.

**Shadows and fear, Part II.** Deputy Luis Florido said he was going to Colombia because of the possibility that he would be thrown in jail following the revoking of his parliamentary immunity by the Constituent National Assembly and the decision handed down by the Supreme Tribunal of Justice.

**The new president speaks.** Luerentino "Nito" Cortizo, Panama's president-elect, said that his government would continue to recognize Juan Guaidó as Venezuela's interim president and questioned the role of the Group of Lima in seeking a solution to Venezuela's crisis.

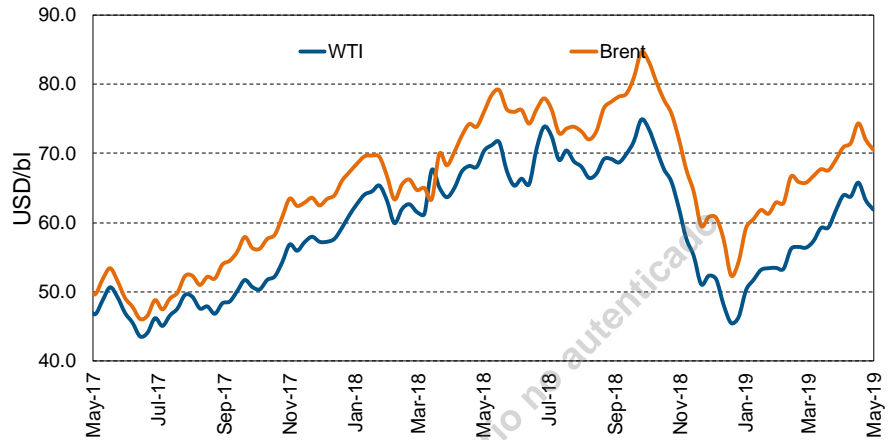
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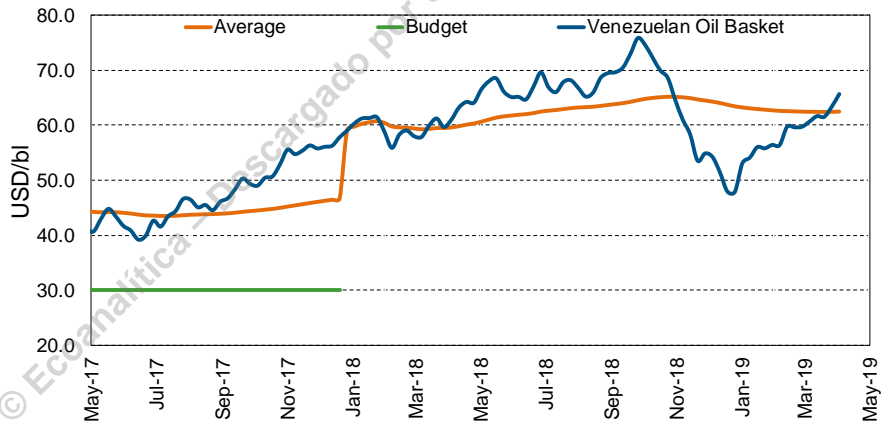
**ECONOMIC INDICATORS**

**Oil Prices  
(WTI and Brent)**



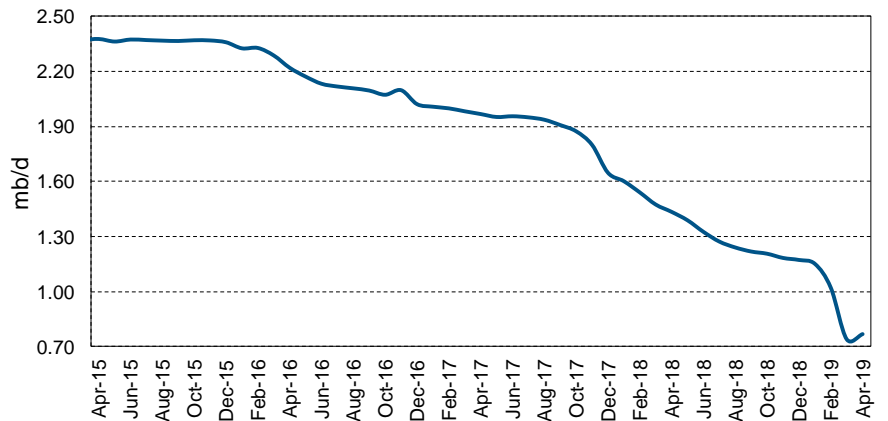
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**



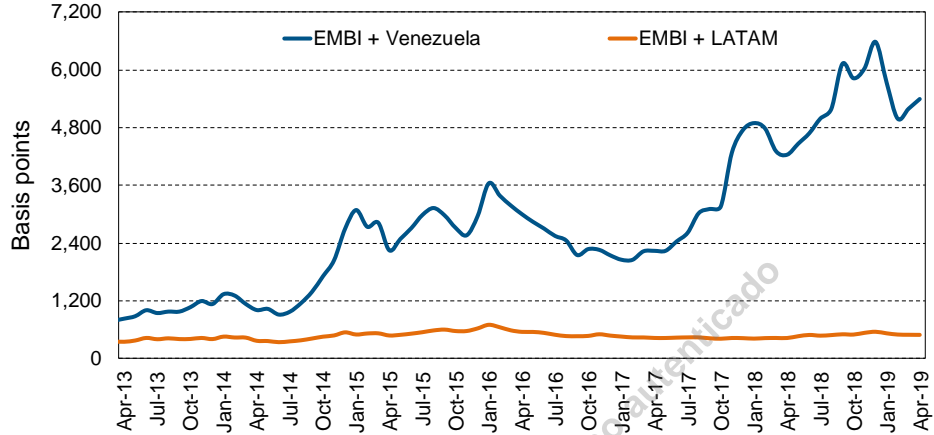
Sources: OPEC and Ecoanalítica

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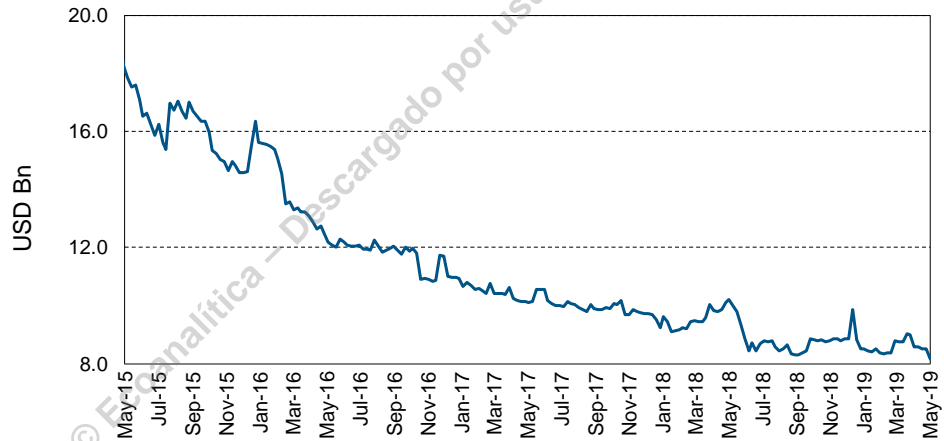
**ECONOMIC INDICATORS**

**EMBI**



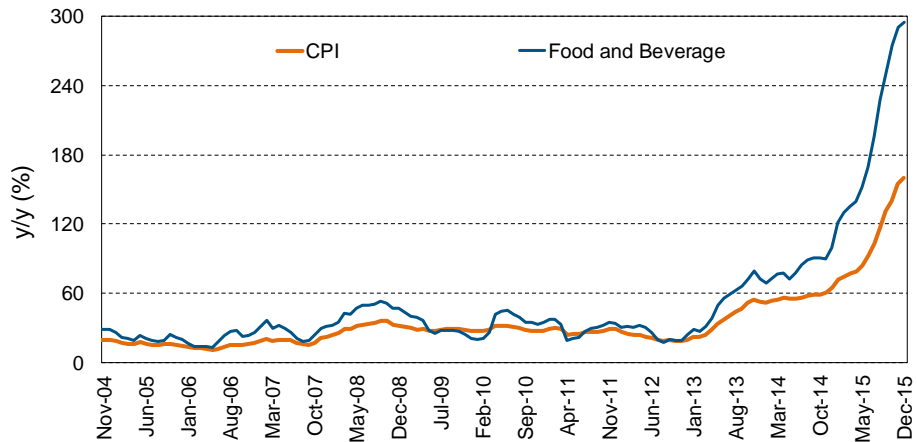
Sources: BCRP and Ecoanalítica

**FX Reserves (BCV)**



Sources: BCV and Ecoanalítica

**Inflation (BCV)**



Sources: BCV and Ecoanalítica

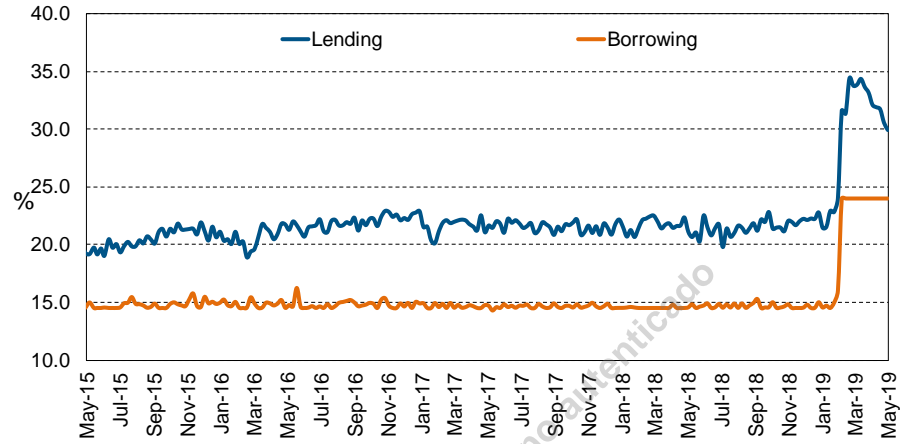
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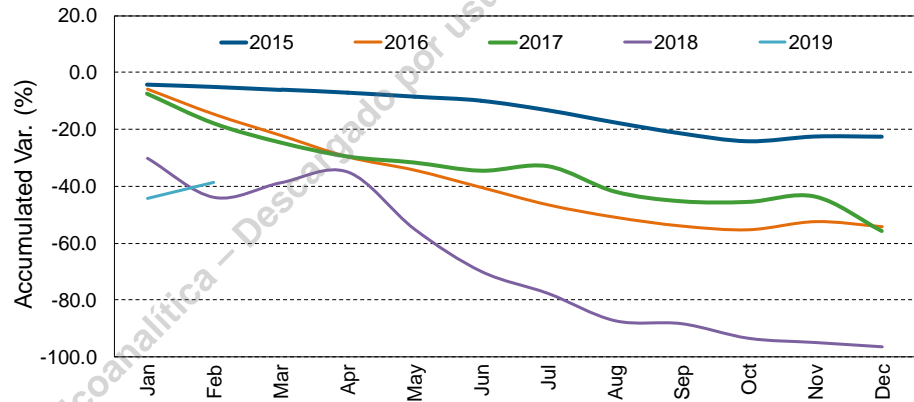
**ECONOMIC INDICATORS**

**Interest Rate  
(Six major banks)**



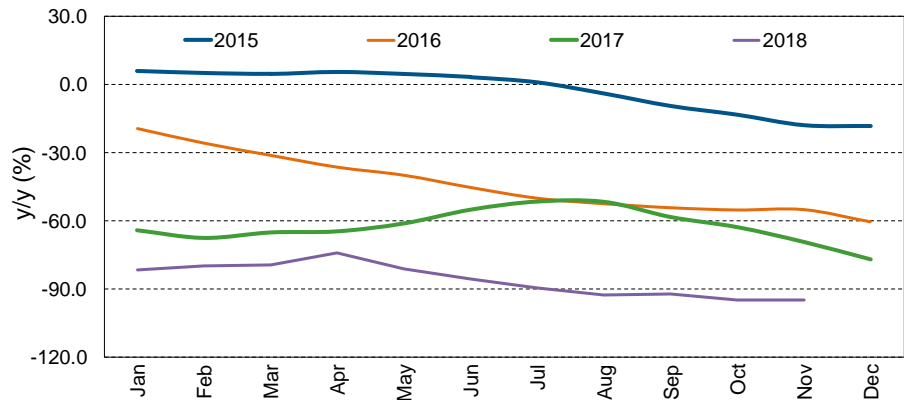
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

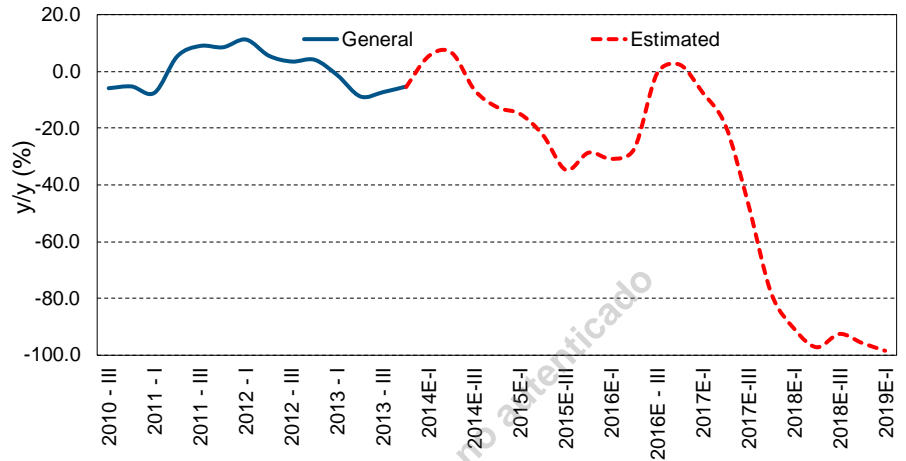
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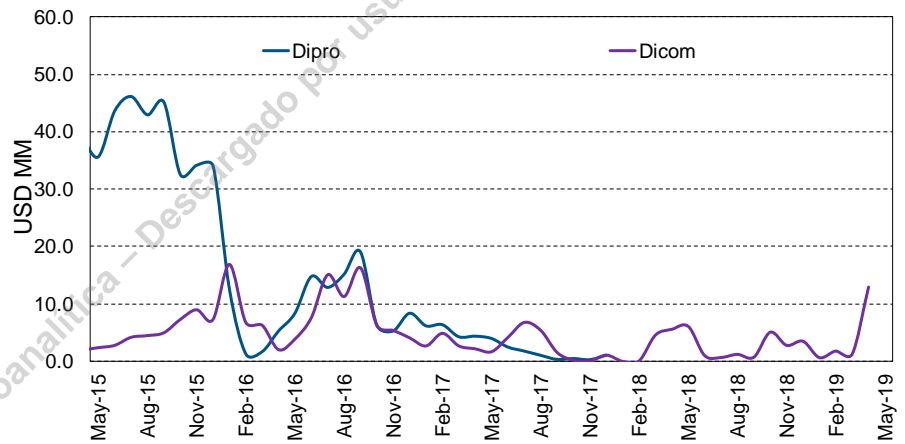
**ECONOMIC INDICATORS**

**Real Wage Index**



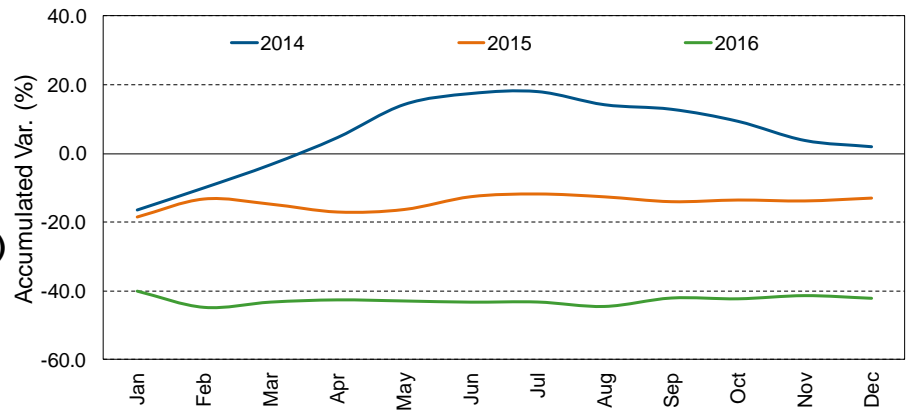
Sources: BCV and Ecoanalítica

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



Source: Ecoanalítica

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



Sources: ONT and Ecoanalítica

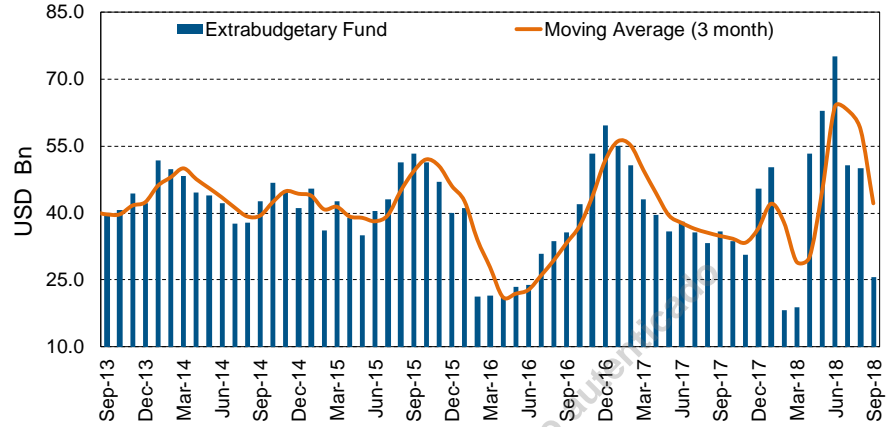
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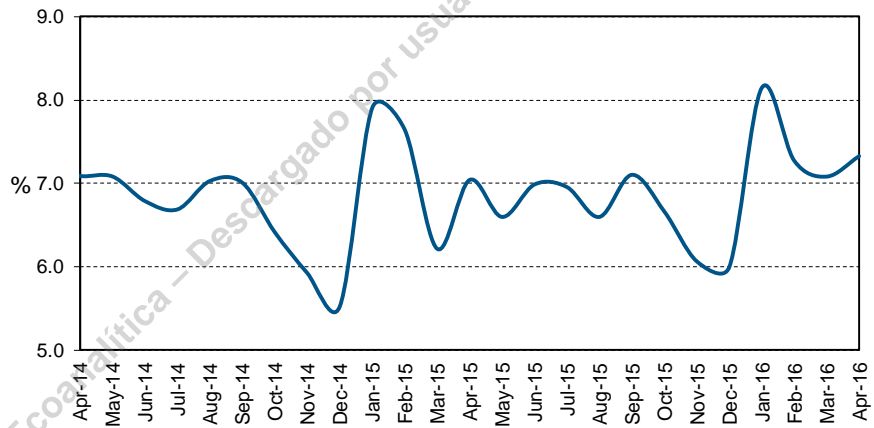
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



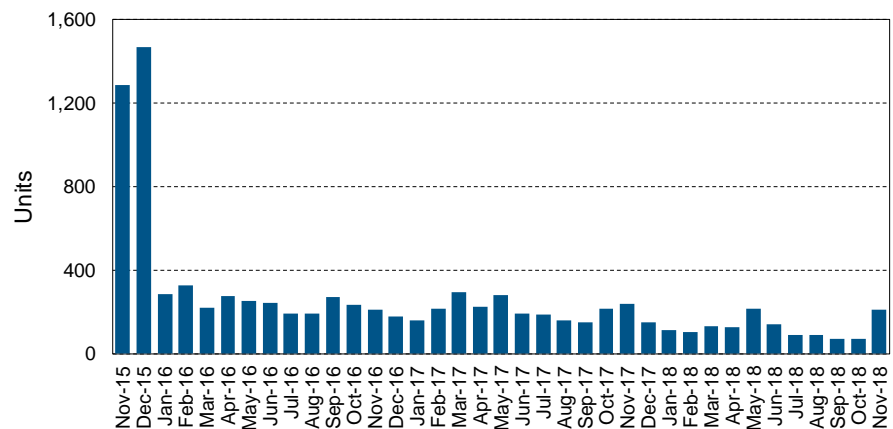
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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