WEEKLY REPORT

Year 15. Number 18 Week V
May 2019

What is behind the slowdown in inflation?

The Venezuelan economy has been experiencing hyperinflation for 19 months. Since early November 2017, prices have gone up by 82,778,881%; that is equivalent to 112.1% a month. The fact that Venezuela has posted cumulative inflation equivalent to that posted between 1950 and 2016 in a mere eighteen months may seem surreal to economic agents whose time horizons have been shrunk to days or even hours.

Hyperinflations, by definition, are exponential processes in which both prices and the rates at which they go up increase. This explosive nature makes predicting inflation in the medium and long terms somewhat complicated and even more difficult because of how sensitive these estimates are to small variations at any given point in time. Given this degree of uncertainty, what the majority of actors intuitively or heuristically expect is that tomorrow prices will go up and that they will go up more than yesterday.

In Venezuela, there was some validity to this logic between 2017 and the first quarter of 2018. Since then monthly inflation has become much more erratic, although still within the margins of what can be considered the highest levels of inflation within Venezuela's contemporary history. However, since February 2019 the rates at which prices have been growing have been considerably below the rates posted in previous months, even though technically they are still above the threshold of hyperinflation.

This may seem counterintuitive for private individuals and companies accustomed to a more frenetic pace of inflation. The purpose of this report is to explain the reasons behind this apparent slowdown in the growth of prices and the conditions that will permit this state of affairs in the immediate future.

From the peak to the ditch

Since the start of hyperinflation, the biggest movements in monthly inflation have coincided with responses to arbitrary economic policy measures, "shocks" that can magnify the course of inflation and also readjust the conditions that feed it. This was what happened in the two months with the highest rates of inflation: August 2018 (with 209.8%) and January 2019 (with 261.2%). In both cases, inflation spiked immediately following announcements of economic measures, the main one being a huge increase in the nominal minimum wage.

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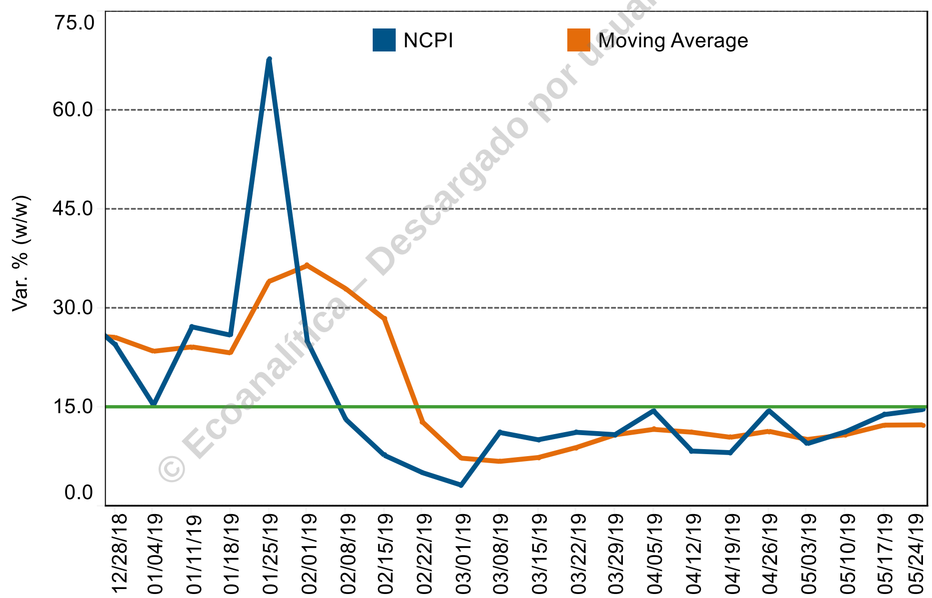
A similar logic works in the opposite direction. An economic policy shock that serves to considerably inhibit demand can contain inflation, up to a point. That is the case of the increases in the legal reserve requirements imposed on the banking sector by the Central Bank of Venezuela in January with the idea of restricting credit and thereby curbing demand pressures on the foreign exchange and goods markets.

The simultaneous combination of these two measures -increases in wages and in the reserve requirements- unleashed a highly volatile sequence in weekly inflation, first of all raising it to 67.7% in the week of January 25 and then reducing it to only 3.1% in the week of March 1. In the space of less than a month, weekly inflation hit its highest and lowest rates since **Ecoanalítica** has been keeping weekly inflation records[1].

Weekly Inflation since January



Source: Ecoanalítica.

Starting the week of February 8, we have had a period of 16 weeks in a row with weekly inflation of less than 15%, something that occurred in only seven out of the 52 weeks in 2018. This puts the last four months at the lowest level of inflation since the hyperinflationary episode started. This phenomenon can be attributed to a combination of induced liquidity in the banking sector and a slowdown in monetary emission by the government.

[1] Weekly inflation has been recorded since the first week of January 2018, which gives a simple of 73 weeks as at the time of going to press.

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What secondary emission?

At **Ecoanalítica** we have already issued several reports[2] on the scope and impacts of using the legal reserve required of the banks as a foreign exchange and monetary policy instrument. By restricting credit, the Central Bank is trying to reduce the demand for foreign currency, so taking pressure off the exchange rate and thereby putting a brake on inflation caused by the pass-through effect, which according to the Central Bank, seems to be the main cause of inflation. For practical purposes, this restrictive measure reduces the amount of bolivars to which private individuals and companies have access, forcing them to reduce their consumption of goods and services in general.

This restriction on credit reduces the amount of bolivars going into circulation as a result of activity by the banking sector. The money multiplier, or the amount of bolivars generated in the economy by each additional bolivar emitted by the Central Bank, has dropped from 1.90 at the start of the year to 1.22, the lowest level since 2010.

Looked at from another point of view, the opposite of the money multiplier is an approximation to the actual legal reserve[3], or the proportion of deposits the banks have to keep as reserves at the Central Bank and are essentially immobilized, which means they cannot be used to grant loans. This actual legal reserve went up from 52.7% to 82.1% between January and May 2018.

[2] Reports on Exchange Rate Policy for April 2019 *Flying blind and without wings.*

[3] This approximation is useful for visualizing the overall effect of the ordinary legal reserve of 51%, the marginal reserve of 100%, and the penalties on legal reserve positions established by the Central Bank of Venezuela.

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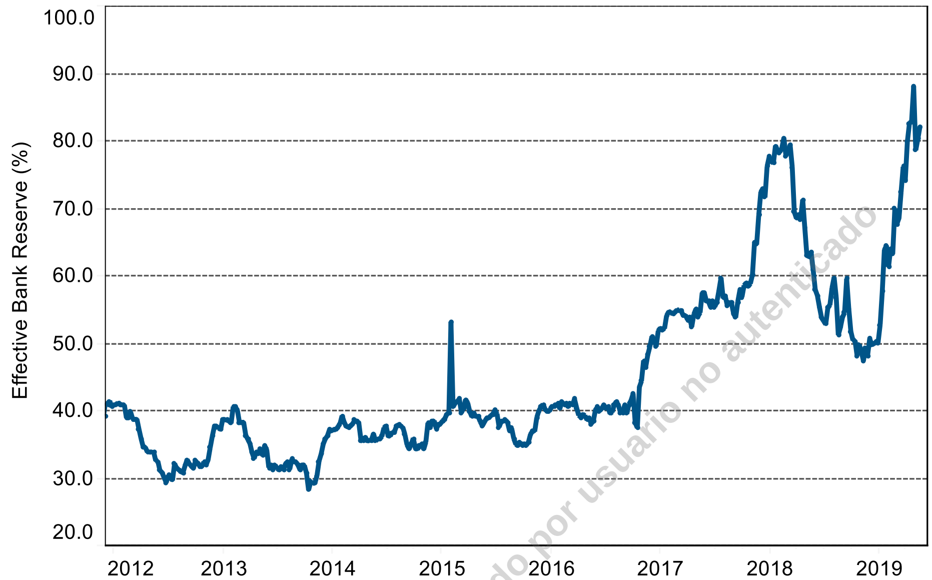
Effective Bank Reserve



Source: BCV and Ecoanalítica

Curbing the monetary base and seigniorage

Neutralizing credit puts the Central Bank in the catbird seat when it comes to the expansion of liquidity, and more so when liquidity depends on the movements in the monetary base. In this regard, the monetary base's weekly rate of growth is slowing down compared to the start of the year, with a mobile average[4] that went from 20.3% in January to 5.5% in the week of May 17. In fact, in the week of May 3, there was a contraction of 7.7% in the nominal monetary base; and a contraction of that magnitude had not happened since October 2016.

[4] A four-week average

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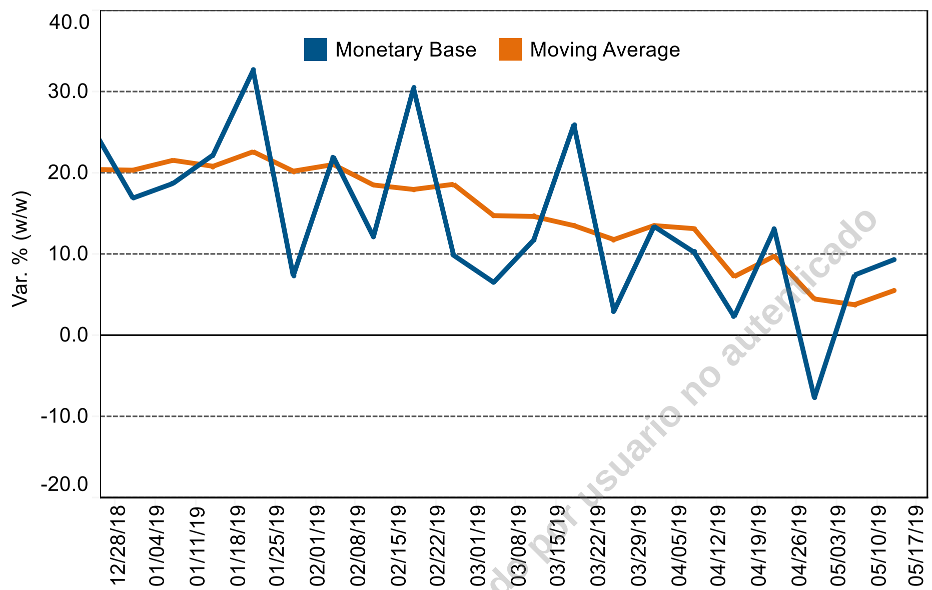
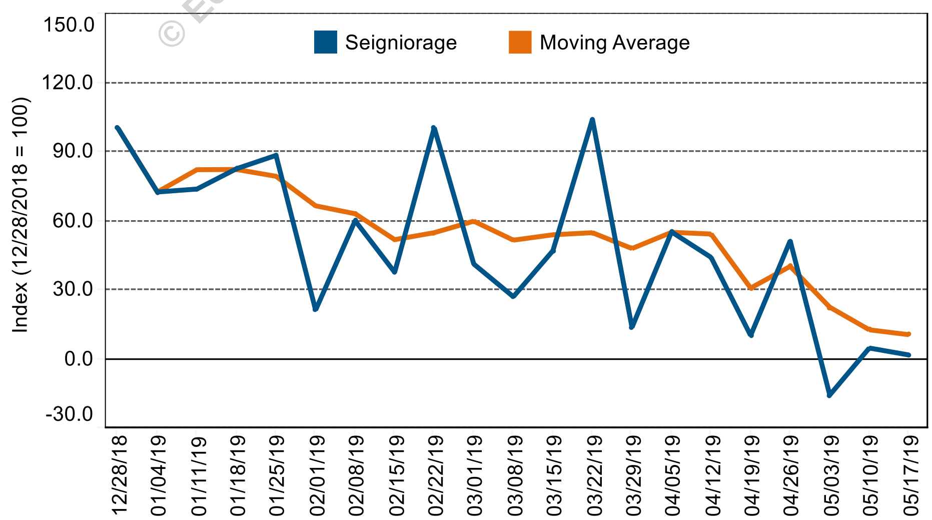
Weekly growth of the Monetary Base



Source: BCV and Ecoanalítica.

This slowdown in the growth of the monetary base is associated with the reduction in the degree of monetary financing by the government. Taking early January as the benchmark, weekly seigniorage has contracted by 98.5%.

Weekly Seigniorage since January 2019



Source: BCV and Ecoanalítica

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Adjustments on the sly

The restrictions on external cash flows to which the government[5] is subjected show no signs of letting up, with a drop of 22.2% in resources in dollars since the start of the year. For that reason, the adjustments in the monetary indicators that depend on the government are the outcome of the resulting balance of resources in bolivars.
On the tax revenues side, the National Integrated Customs and Tax Administration Service (Seniat) posted real monthly increases in February and April (55.3% and 11.4%, respectively) and a drop of 40.0% in March. Although this may seem to be an improvement in the tax receipt situation in the month, this behavior is not atypical if viewed historically. Since 2014, 22 months have posted increases in tax receipts in real terms, 7 of which were February or March (March being the month in which income tax is paid). Similarly, in real terms, tax receipts have posted a drop of 37.7% since the start of 2019.

Given the decline in real revenues available to the government, the mechanism for reducing pressure on fiscal monetization is, necessarily, delaying expenditures. In a kind of "race to the bottom," as real expenditures fall more slowly than real revenues, the fiscal result improves. In this case, remunerations paid to workers in the public sector and all structures anchored to the nominal value of the petro since August 2018 are the expenditure elements over which the government exercises a high level of discretion and has some margin of maneuver when it comes to deciding adjustments, with the potential erosion of its political capital being its main concern when deciding how far to allow wages and salaries to fall behind.

This can be seen when we analyze the real gain (or loss) in purchasing power of each wage raise compared to the preceding raise[6]. Since 2013, 27 minimum wage increases have been decreed, 5 (18.5%) of which compensated for the increase in prices and were able to increase purchasing power to the same level as the previous wage. In the case of the wage increase that went into effect in May 2019, that meant a real drop of 33.7% compared to the minimum wage in January.

[5] Weekly Report Nº17 May 2019 *The political economy of the balance of payments crisis*
[6] Given that the frequency of wage increases is irregular, to perform this calculation, the nominal increase in the wage is adjusted taking account of cumulative inflation since the previous wage increase. That way, we obtain the real variation from one minimum wage to the next.

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Minimum wage adjustments since 2013			
Number	Adjustment date	Nominal adjustment (%)	Real change since last adjustment (%)
1	may-13	20.0	-6.7
2	sep-13	10.0	-5.3
3	nov-13	10.0	-0.2
4	ene-14	10.0	4.1
5	may-14	30.0	9.2
6	dic-14	15.0	-19.6
7	feb-15	15.0	-1.9
8	may-15	20.0	-4.9
9	jul-15	10.0	-13.5
10	nov-15	30.0	-21.3
11	mar-16	20.0	-21.6
12	may-16	30.0	-0.8
13	sep-16	50.0	-26.4
14	nov-16	20.0	-9.4
15	ene-17	50.0	-2.9
16	may-17	60.0	-18.4
17	jul-17	50.0	-5.4
18	sep-17	40.0	-24.5
19	nov-17	30.0	-43.1
20	ene-18	40.0	-60.2
21	mar-18	58.0	-52.1
22	may-18	154.7	-42.1
23	jun-18	200.0	28.1
24	sep-18	5,900.0	246.1
25	dic-18	150.0	-86.7
26	ene-19	300.0	10.7
27	may-19	122.2	-40.1

Sources: Official Gazettes, BCV and Ecoanalítica

Expectations of a new status quo?

In the first section of this report we said that the main leaps in weekly and monthly inflation occurred in response to announcements of economic measures. Many agents and companies have internalized that wage increases come hand in hand with hikes in prices and they tend to adjust their behavior in anticipation of this (buying goods before

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they would normally have done in the case of agents and raising sales prices in the case of companies), which results in increasing inflationary pressures. This dynamic seemed to be broken following the May wage announcement, when weekly inflation immediately after the increase went into effect posted no major volatility compared to the rest of the quarter, much less the same volatility observed in January and April.

The fact that the increase went relatively unnoticed in terms of inflation can be attributed to a combination of a smaller increase than expected[7], a discrete (and opaque) revelation of the wage decree itself, and the attention given to the political events of April 30. However, expectations regarding future wage increases could incorporate the information that the government may make the lapses between wage updates longer and that the amounts of wage hikes will not necessarily trigger a disproportionate increase in aggregate demand.

These expectations could also be extended to the idea of an environment with lower rates of inflation, at least compared to 2018. At **Ecoanalítica**, we consider that, even though this would result in a downward revision of inflation estimates by year-end, the bases on which the slowdown in the growth in prices is occurring are weak and there is a high risk of inflation taking off again if the government increases its monetary financing of fiscal spending.

As of now, the Venezuelan economy has still not formally closed its hyperinflationary episode; and the containment of the increase in prices is being achieved at the expense of the real wage of public sector workers and the sustainability of the banking sector. While price stability in the medium term continues to be uncertain, the worsening of the economic recession is guaranteed.

Giorgio Cunto

[7] Chart of Week Possible *scenarios for a minimum wage adjustment* for April 29th offers some hypothetical scenarios for the May minimum wage increase. The actual increase was lower than the possibilities considered by **Ecoanalítica**.

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WEEKLY INDICATORS

Weekly Economic Indicators

	5th Week May	Weekly chg. (%)	Depre/Apre (pp)[1]
FX Boards (VES/USD)[2]	5,829.65	3.4	3.3
	3rd Week May	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	32.6	1.9	11.5
	4th Week May	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	106.3	4.7	106.3
	4th Week May	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.0	-0.2	-18.7
	2nd Week May	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	6,045,992	6.9	59,394.2
Price of International Oil Baskets (USD/bl)			
	4th Week May	Weekly chg. (%)	Annual chg. (%)
WTI	61.6	-0.4	-14.0
Brent	71.3	0.0	-10.0
Price of the Venezuelan oil basket (USD/bl)			
	4th Week May	Weekly chg. (%)	Annual chg. (%)
Weekly Average	64.5	0.2	-5.9
Annual Average	60.2	0.4	-1.9

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

[1] Depreciation (+)/Apreciation (-)

[2] FX Borads' average exchange rate

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Ecoanalítica
acompañando las buenas decisiones

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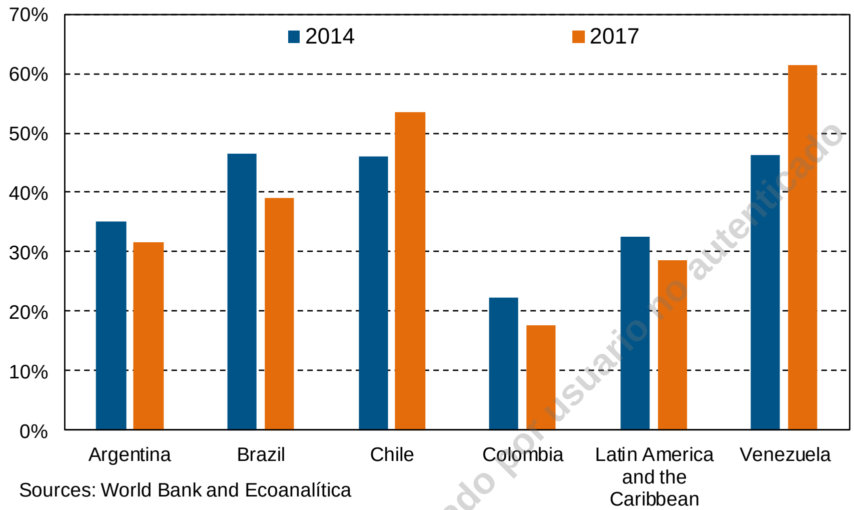
GRAPH OF THE WEEK: "INNOVATE OR CHANGE"

Percentage of the population that used debit or credit cards for a transaction that year



Sources: World Bank and Ecoanalítica

On April 17, the United States Department of the Treasury issued a license so that a number of companies, among them MasterCard and Visa, might maintain operations with Venezuelan state-owned financial entities up until March 2020, thereby evading the sanctions for the time being. The Central Bank of Venezuela and the Superintendency of Banking Sector Institutions (Sudeban) reacted by sending a circular to all the country's financial entities requesting that they create a new national payment system before the aforementioned license expires as a potential replacement for these platforms (including Maestro).

There will be no shortage of problems in implementing this new system. According to the World Bank, in 2014, 46% of economic agents over the age of 15 in Venezuela performed operations using debit or credit cards; by 2017, that figure had gone up to 61%. By way of comparison, in 2017 the percentage of economic agents using debit or credit cards in other countries of the region was as follows: Chile, 53%, Brazil 39%, Colombia 18%, and Argentina 32%. Besides that, this indicator in Venezuela was 32 percentage points higher than the average for the region, posting moreover, a bigger increase than countries such as Chile, which also revealed a more intensive use of debit and credit cards.

This situation not only seems to confirm the mass use of these instruments as a common means of payment by Venezuelans, but also seems to show how complex it would be to implement a system that would equal the scope of these platforms (and would also be a technically acceptable replacement, if necessary), particularly given the restrictions on the financial sector's ability to generate revenues.

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ECONOMIC TIPS

#BCV*Leaks*. On May 18th the Central Bank of Venezuela (BCV) published data that was not updated since 2015. Among the published data we found the gross domestic product (GDP), inflation and the balance of trade.

What can we observe? (I). According to the data published by the BCV, the total GDP in 3Q2018 was VES 75,312 using as a base period 1997's prices. Compared to the last trimester of 2015 (last recorded number before the 28th) we observe a product decrease of 49.0%.

Who paid the bill? On a disaggregate level, the oil GDP fall was 39.4% and the non-oil GDP was 39.2% on the same period. In this sense, the fall of the public and private sector GDP was 21.7% and 50.2% respectively.

What can we observe? (II). In the price section the BCV published that April's inflation was 33.8%, and 282,967% compared to April 2018. Both changes are below **Ecoanalítica**'s estimates.

What can we observe? (III). On the other hand, the goods that showed higher inflation in April were Communications and Health, with 165.7% and 68.4% respectively. Compared to April last year, the goods that presented the higher increase in their prices were Rental housing and Housing services, with 3,856,498.0% and 1,310,297.2% each.

New projections. The International Monetary Fund (IMF) published its report with its estimates and projections for this year. Venezuela, as has become customary, stood out because of figures that are far from encouraging. On the unemployment front, the IMF estimates unemployment of 44.3% for 2019, the highest rate among Latin American countries, which have an average of 10.7%.

More projections. Focus Economics has also published its estimates for 2019. It forecasts that Venezuela will have inflation of 4,938,311% in 2019 and a drop in GDP of 22.3%. Its estimates for 2020 put inflation at 1,638,672% and the drop in GDP at -2.2%.

The foreign exchange desks. It is now ten days since the new foreign exchange system with the participation of the banks was announced by the Central Bank of Venezuela. This system is supposedly intended to replace the DICOM system. The Central Bank publishes the banks that take part in trading along with the buy and sell exchange rates.

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The participating banks. The banks that have been taking part in these foreign exchange desks are: Banco de Venezuela, Banco Nacional de Crédito (BNC), Banco Exterior, Bancaribe, Banco Occidental de Descuento (BOD), Bancamiga, Mi Banco, Banco Plaza, Banplus, Banco Activo, Banco Venezolano de Crédito, and Banco del Tesoro.

The exchange rate. The official reference exchange rate published by the Central Bank closed at VES 5,738.3/USD last week. That gives a devaluation of 3.2% compared to the previous week, when the resultant exchange rate was VES 5,556.9/USD. The devaluation since the start of the foreign exchange desk system is 8.3%.

They are falling. The international reserves closed at USD 7.97 billion in the week of May 24, for a drop of 2.3% compared to the previous week ending May 17, when they were at USD 7.98 billion. The devaluation for the year up until May 24 is 18.7%.

Up nominally, down in real terms. Money supply for the week of May 17 came to VES 6.05 trillion, an increase of 6.9% compared to the previous week. The nominal cumulative increase for the year to date is 595.7% and the increase year-on-year is 59,394.2%. However, in real terms, money supply has fallen by 57.2% so far this year.

OIL TIPS

Legal action. The shipping company Bernhard Schulte Shipmanagement (BSM) has taken legal action to seize three of PDVSA's tankers in order to collect the debt PDVSA has with the company for services rendered, according to Reuters. BSM operates 13 of PDVSA's 32 tankers in addition to two very large crude carriers (VLCCs) jointly owned by PDVSA and PetroChina.

Now PDVSA has fewer tankers. A letter distributed internally by BSM giving notification of the measure states, "*Due to the substantial fees due to BSM from owners we have placed arrest on three of the tankers, the Arita in Singapore and the Parnaso and Rio Arauca which are both in Lisbon, Portugal*."

BSM + McQuilling. BSM is not the only shipping company to have taken legal action against PDVSA. In March, the company McQuilling Partners ended a contract under which it provided PDVSA with four tankers. Without the services of these two companies, PDVSA is restricted when it comes to moving shipments between its ports, storing petroleum and exporting to some destinations.

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Money laundering. Last week, the Spanish police raided a number of properties belonging to a former ambassador of Venezuela to Spain, Raúl Morodo, as part of an investigation into a case of money laundering. The case involves the laundering of EUR 4.5 million from PDVSA. Morodo's son, Alejo Morodo, has been arrested; his father, however, was not due to his age, but is still part of the investigation.

Guarded by the military. Argus Media reports that armed Venezuelan troops have been deployed aboard 15 oil tankers owned by PDVSA to ensure that cargoes destined mainly for Cuba are delivered. This occurred after Maduro ordered the start of Operation Sovereign Petroleum.

Operation Sovereign Petroleum. This operation came about after an incident on May 1 when the tanker Manuela Sáenz owned by PDVSA challenged orders issued by the Minister of Oil to send a shipment of diesel to Cuba. The members of the crew were arrested and charged with treason.

Everything is under control. The Manuela Sáenz, Ícaro, Negra Hipólita, Eos, Luisa Cáceres, and Río Orinoco are six of the 15 tankers owned by PDVSA that continue to be under military control. "*The security personnel are ready for any contingency that might arise on board the tankers*," commented a military official.

All set for Cuba. Since the implementation of US sanctions, Venezuela has been exporting crude to Cuba. S&P Global Platts reports that, based on internal PDVSA documents, the company exported 1.4 mb/d of crude and refined products to Cuba in May, compared to 355 kb/d in April.

Shortage of gasoline. Workers at PDVSA told the newspaper *El Interés* that Venezuela only has enough gasoline to supply 15% of the country's service stations. Iván Freites, the secretary of the Unitary Federation of Workers in the Oil, Gas, Derivatives and Like Industries (Futpv), said that 19 years ago Venezuela had 1750 service stations. Today there are less than 800, and not all of them are being supplied.

Caracas, the biggest consumer. Freites commented, "*It's false that the national oil industry is guaranteeing Venezuela fuel supplies*." He said that PDVSA's current production of 300 kb/d is insufficient. Caracas, the capital, accounts for a large part of the country's fuel demand.

Relief could be on the way. According to *Voluntad Popular* leader Yon Goicoechea, the supply of gasoline could collapse in three weeks' time due to the problems the government is experiencing in gaining access to international markets. However, two

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shipments of approximately 190,000 barrels each are expected and then there will be another shipment of 500,000, which could meet domestic fuel demand for a few days more.

Producing less than our neighbor. At the moment, Venezuela's crude production is less than Colombia's. In March, Venezuela produced 740 kb/d and Colombia produced 884.4 kb/d, despite having only 1% of Venezuela's crude reserves. According to the Organization of Petroleum Exporting Countries (OPEC), this is the first time since 1960 that Colombia has surpassed Venezuela in the production of crude.

BUSINESS SECTOR TIPS

Goodbye, manufacturers. According to the data published by the Venezuelan Central Bank, January's manufacture activity increased 21.4% compared to the previous month, but it also represents a 20.6% fall compared to last year's same month.

And commerce? The Venezuelan Central Bank also published wholesome and detail sales data of January, which decreased 39.7% and 29.6% respectively compared to the prior month. Also, they decreased 59.7% and 53.5% compared to January of 2018.

The minimum required. Celso Fantinel, the first vice president of the Confederation of Agricultural and Livestock Producers Associations (Fedeagro), said that at least USD 1.5 billion is needed to revive domestic agricultural production.

No more, no less. That is what is needed to maintain a regular farming production cycle. "*For a normal cycle and to plant 2.5 million hectares, around USD 1.5 million dollars is needed, and that also includes livestock*," claimed Fantinel.

Like back in the 1970s. Fantinel reiterated his concern over the situation Venezuelan farmers are facing, which, on top of the problems with the electric power system and the lack of fuel, has set back agricultural production more than 45 years.

Fewer banking days. According to the bank calendar established by the Superintendency of Banking Sector Institutions (Sudeban), June 3, 17 and 24 will be bank holidays. June 3 celebrates the Ascension of Our Lord and June 17 is Saint Anthony's Day.

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Fare set at VES 300. Vice President of the Public Works and Services Sector Néstor Reverol announced that, after meeting with the bus drivers, the urban bus fare has been set at VES 300.

Hanging in there, with some help. Reverol also said that the order had been given to set up a committee made up of the state-owned banks, the Higher Transport Agency, and the bus drivers with a view to allocating financing for the acquisition of spare parts and the recovery of transport units.

Just a bit (a very little bit) more profitable. The Ministry of Transport has also raised the fares for the Caracas-Cúa Metro and Railway System and other mass transportation systems, such as the Caracas Metro, the Los Teques Metro, the Valencia Metro, and the Maracaibo Metro, to VES 40.

A new price for the CLAPs in Caracas. Libertador Municipal Councilor Alexander Aranguren announced that the price for the box of subsidized staples distributed by the Local Supply and Production Committees (CLAPs) in the capital region has been set at VES 2,500, which includes the cost of transport and logistics.

That's decided by others. He explained that the CLAPs' General Staffs are the ones that set and coordinate the price people are to be charged for this benefit directly with the state governors. He also said that there are 32,600 CLAPs nationwide and that this benefit reaches 6 million families.

Recovering the cereals industry? In a first phase, the regional government has handed over inputs for planting cereals to farmers in Guárico. Thanks to these inputs, in the 2019 winter cycle farmers expect to plant a total of 106,600 hectares of cereals, 40,000 hectares of sorghum, 30,000 hectares of rice, and 36,600 hectares of other cereals in Gúarico state.

An alliance with South Africa. People's Power Minister for Ecological Mining Development Víctor Cano held a meeting with the ambassador of South Africa, Joseph Muzi Khehla, to fine tune the details of the visit of a company interested in undertaking projects involving the exploration for and production and marketing of strategic mineral resources in Venezuela.

Only half the staff needed. A report prepared by a multidisciplinary team of engineers and delivered to the National Assembly's Services Committee estimates that the deficit of specialist personnel for operating and maintaining the country's electric power networks is at 50%.

WORLD ECONOMY TIPS

Risk of increasing the footprint. In its latest report, the International Energy Agency (IEA) highlighted the sharp drop in available nuclear energy capacity. The nuclear park in the United States and in Europe will soon need to be renewed, but the costly security requirements and the low cost of alternatives, such as gas, have made nuclear energy economically unattractive.

Looking to the long term. The EIA added, "*Without policy changes, advanced economies could lose 25% of their nuclear capacity by 2025 and as much as two-thirds of it by 2040*." At the moment, nuclear energy is the second biggest source of low-carbon electricity worldwide, accounting for 10% of world electricity generation.

What needs to be done today? Even with the emergence of wind and solar energy, clean energy sources continue to occupy the same position of importance as 20 years ago (36%). For that reason, IEA Director Fatih Birol said that the agency's petition to advanced countries did not involve reincorporating nuclear energy but referred to their willingness to invest in alternatives to offset the shortfall in generation.

A huge vacuum. Birol added that, in order to offset the expected decline of nuclear energy over the next 20 years, investment in renewable energy would have to grow fivefold.

Strengthening ties on the Eastern front. At a joint meeting with Japan's Prime Minister Shinzo Abe, US President Donald Trump said that he was holding negotiations with Japan to improve the conditions for US exports. He announced that he hoped to be able to offer statements regarding trade soon and that bilateral collaboration would be extended to exploring humanitarian issues.

Seeking the advantage. Trump argued that Japan has a substantial advantage over the United States, which meant that new terms for bilateral trade would be necessary. Moreover, he urged Japanese businessmen to increase their investments in the United States.

Circumventing conventional channels. On another front, Trump called the situation of latent tension with Iran a national emergency. In doing so, the president was able to bypass the objections of Congress and complete a sale of weapons to Saudi Arabia, the United Arab Emirates, and Jordan amounting to USD 8 billion.

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Create the problem then offer a solution. Trump also said that Huawei Technologies Co. Ltd. could be included under an agreement with China, after the US Government banned the Chinese company from maintaining relations with any US company.

Consequences that have consequences. The decision by the United States to cut relations between US companies and Huawei opens up the possibility that US companies will subjected to the same treatment from the Chinese Government. Eric Ennis, senior vice president of the US-China Business Council, said: "*Companies might "just have to read the tealeaves on how their business operations are being treated*." Disney, Nike, and Apple are just three companies that have strong ties with the Chinese market.

For it to continue to be worthwhile. The US Government is to provide a USD 16 billion agricultural aid package to compensate for the losses caused by trade tensions with China. Most of this package will be in the form of direct payments. The agricultural sector has suffered as a result of the trade dispute, since the Chinese market used to receive 60% of the soybeans exported by the United States.

Adjusting rates in view of the Diaspora. Chile's Central Bank is considering cutting its reference interest rate (currently at 3%) due to the impact that the arrival of Venezuelan immigrants might have.

POLITICAL TIPS

Round two. In a press release, Norway's Ministry for Foreign Affairs confirmed that the Venezuelan Government and the opposition would meet again in Oslo on May 25 to continue with the dialog facilitated by Norway.

Norwegians convey their thanks. Ine Eriksen Søreide, Norway's foreign minister, expressed her thanks to both parties for their efforts and their willingness to take part. The Foreign Affairs Office also reiterated its commitment to supporting both parties in seeking a solution to Venezuela's severe crisis after having held a first meeting in the first half of May.

It is NOT a dialog. Referring to the meetings, Acting President of Venezuela Juan Guaidó clarified that the meeting his representatives and the representatives of the Nicolás Maduro administration would attend in Norway was at the invitation of Norway to mediate and that it was not a political dialog.

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Words from a president. Guaidó explained that the meeting was "*an invitation to a mediation by Norway (…); it's not a negotiation; it's not a dialog. We don't use (…) the regime's narrative. It is just another initiative we are pursuing that, quite simply, if we achieve the end of (Maduro's) usurpation, a transition government, and free elections, it will have worked*."

***Chavismo* gets ready.** The person who is governing Venezuela, Nicolás Maduro, thanked Norway for its efforts to achieve a political dialog that would help to solve the Venezuelan crisis. This message was accompanied by a video in which he appears in a meeting with the delegation that is to represent his administration in the encounters that are to be held in Norway, chaired by Minister of Communication and Information Jorge Rodríguez.

Russia doesn't bite its tongue. Russia's Foreign Affairs Minister Serguei Víktorovich Lavrov issued a communiqué in which he urged all the countries involved in the Venezuelan situation to support the start of the political process via negotiations without issuing ultimatums to the Maduro administration. Lavrov said that Russia was "*prepared to provide the necessary assistance for said dialog, if the parties request it*."

Recovering spaces. Carlos Vecchio, the delegate of opposition leader Juan Guaidó recognized by the United States as Venezuela's interim president, took control of Venezuela's embassy in Washington, where activists who sympathize with the Nicolás Maduro administration had been squatting for several weeks. Upon formally occupying the embassy, Vecchio announced the end of the usurpation.

Two more weeks. The outcome of Deputy Juan Requesens' preliminary court hearing will have to wait two more weeks. In August 2018, Requesens was charged along with another 16 people in connection with the failed attempt on Nicolás Maduro's life.

It's up to them to decide. According to Juan Guaidó, the use of force is still on the table. "*Today, because they have sequestered power, it is they who are going to decide whether the transition is going to be by force or if the door will be opened to re-institutionalizing the country. We are either going to the end of the usurpation and a democratic transition or we will have cooperation and the use of force*," he said.

They're always innocent. Hugo Carvajal, a former *Chavista* general arrested in Spain on the orders of the United States, announced that he had changed his legal counsel and reiterated that he was innocent of the charges filed against him. Carvajal was arrested in Spain on April 12 at the request of the United States, which has claimed him on the grounds of drug trafficking crimes.

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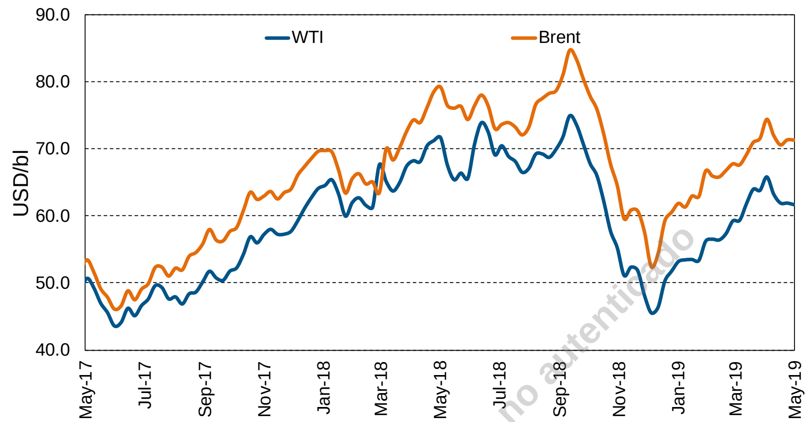
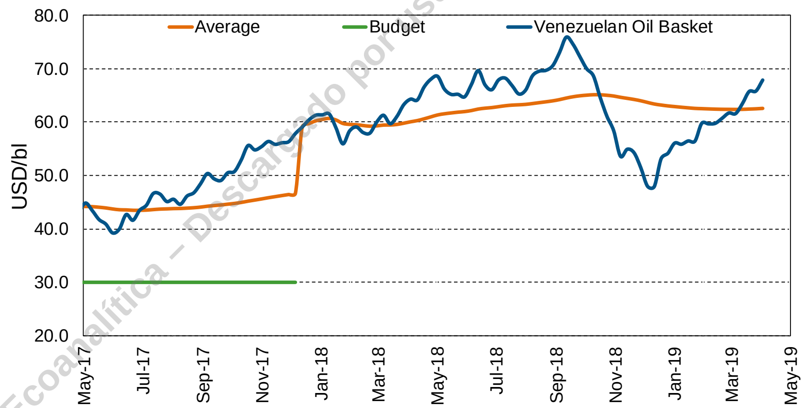
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



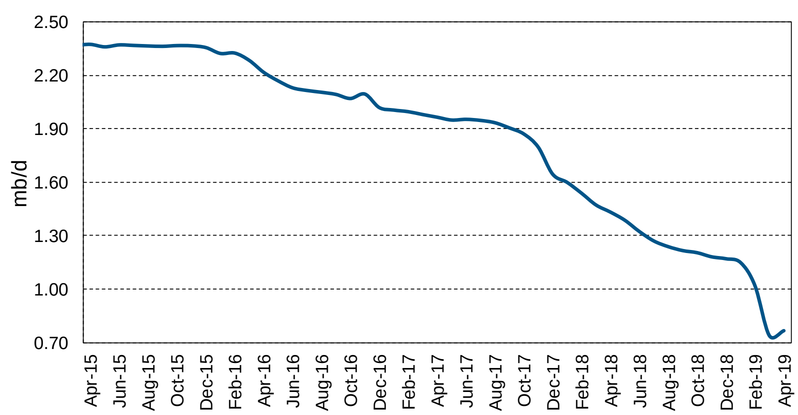
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

Oil Production (Secondary sources)



Sources: OPEC and Ecoanalítica

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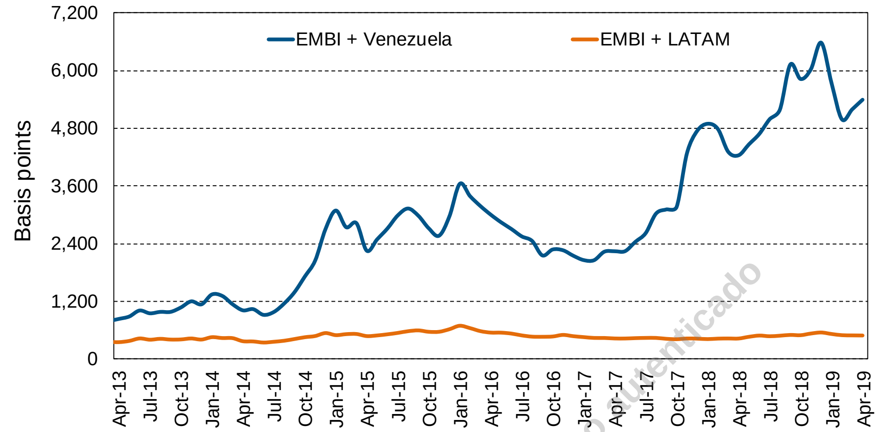
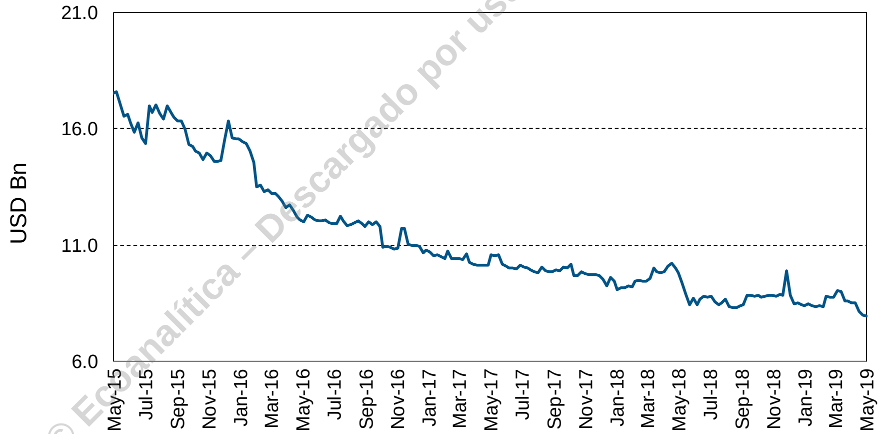
ECONOMIC INDICATORS

EMBI



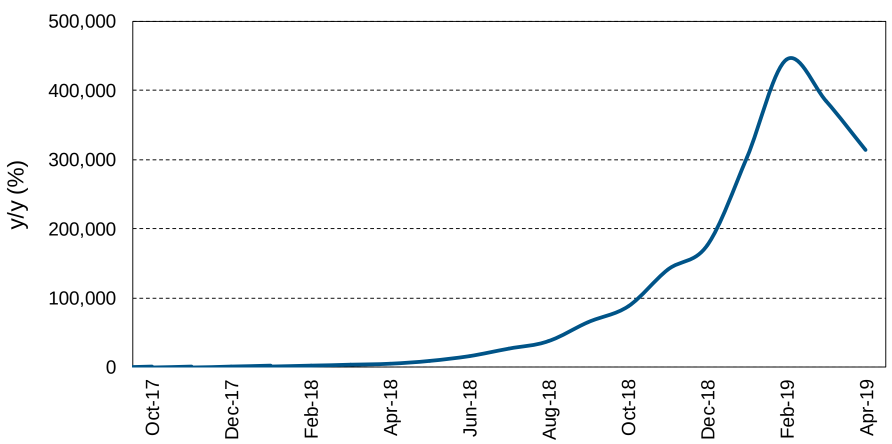
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources:BCV and Ecoanalítica

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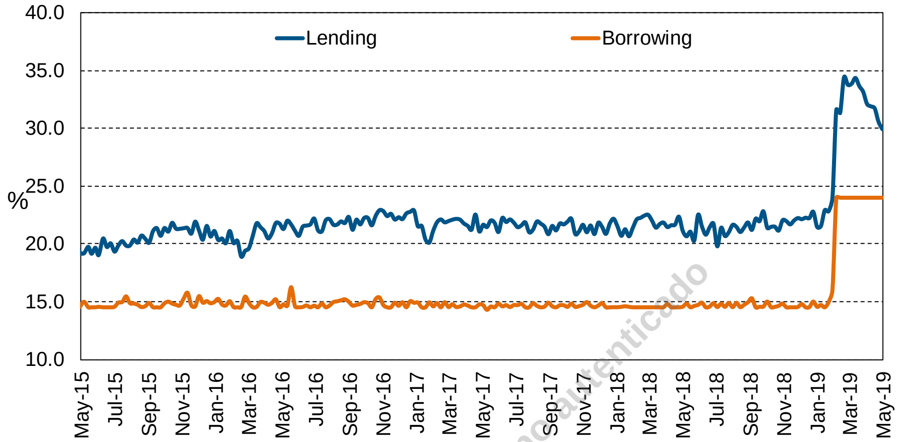
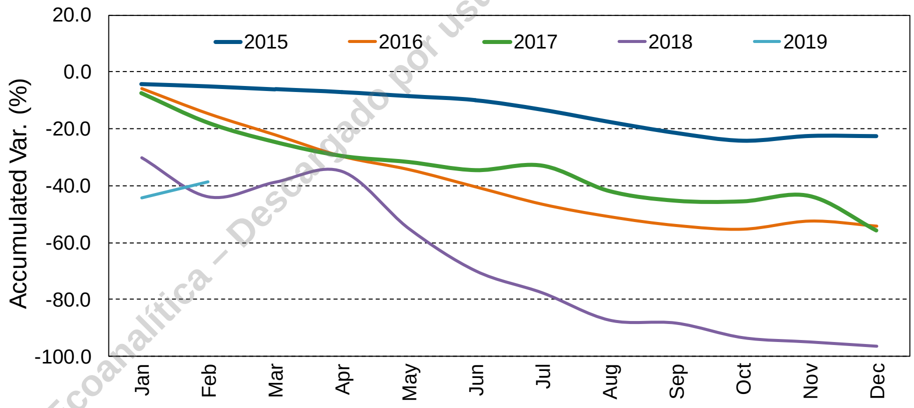
ECONOMIC INDICATORS

Interest Rate (Six major banks)



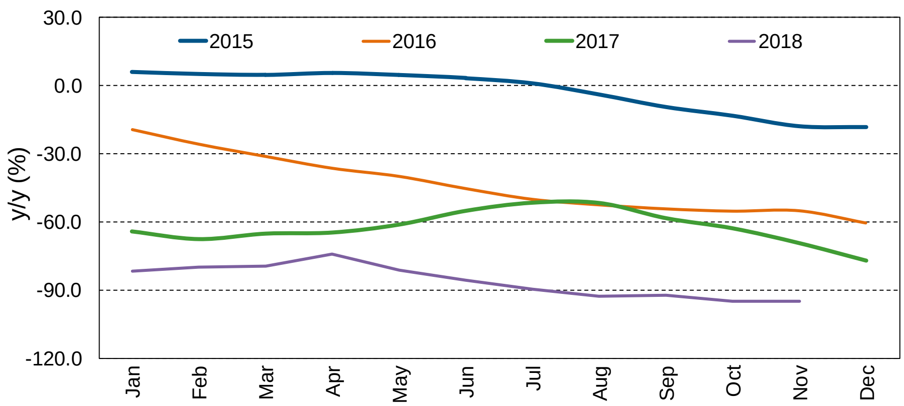
Sources: BCV and Ecoanalítica

M2 Expansion (Real)



Sources: BCV and Ecoanalítica

Loan Portfolio (Real)



Sources: SUDEBAN and Ecoanalítica

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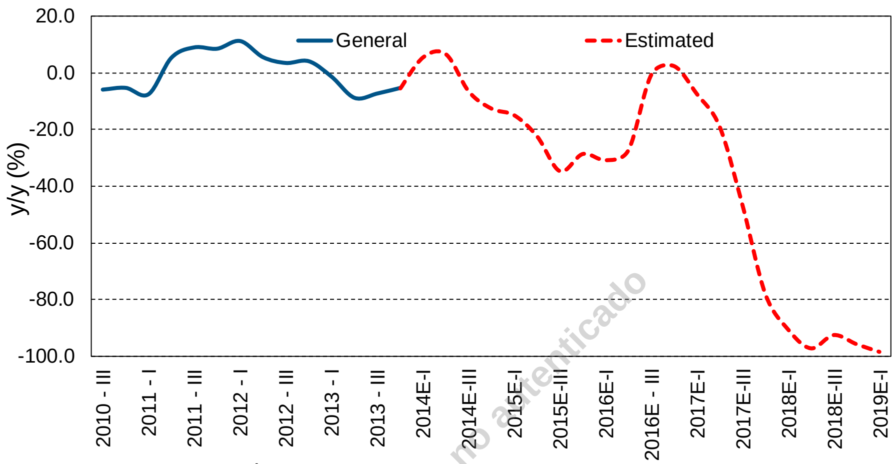
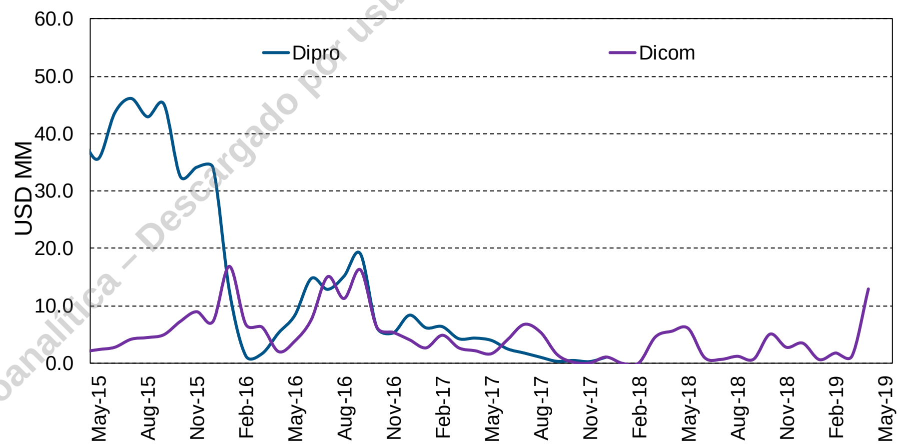
Real Wage Index



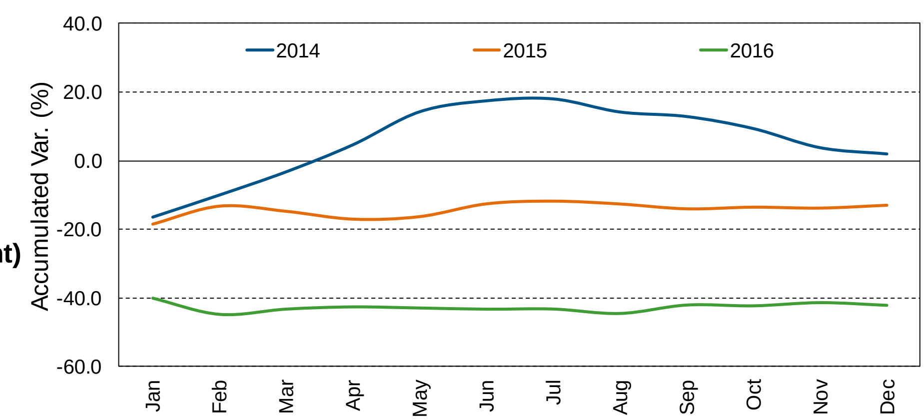
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

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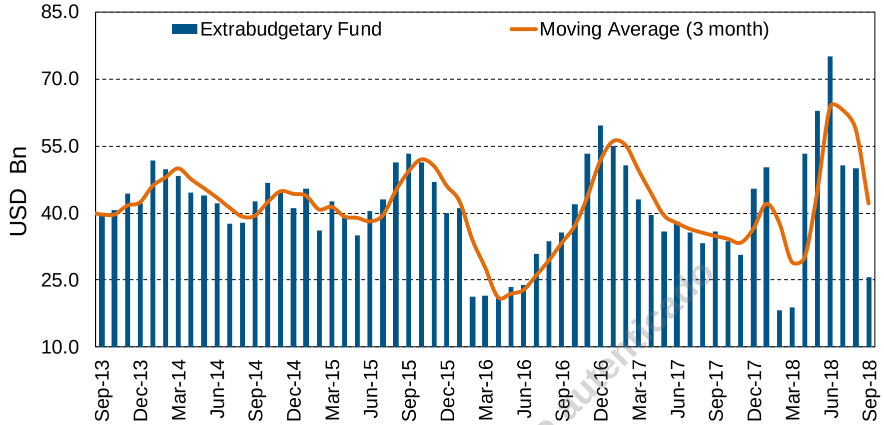
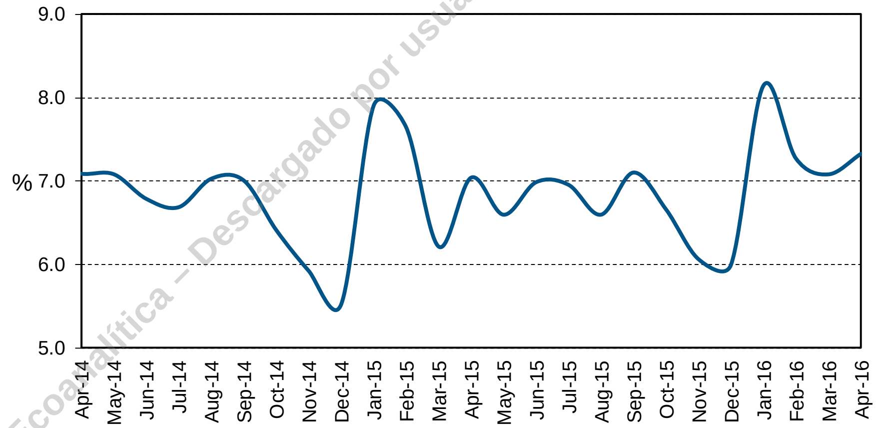
ECONOMIC INDICATORS

State Extrabudgetary Resources



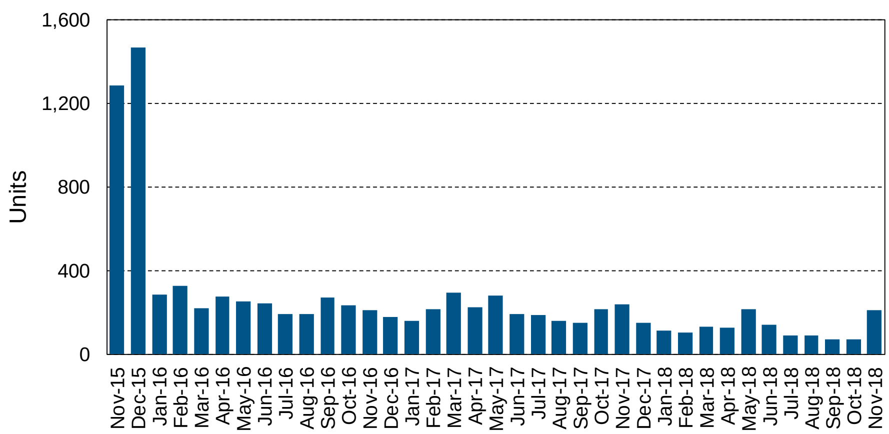
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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