

The decline of PDVSA

The effects of the March mega nationwide power out are now behind us, but PDVSA has not recovered. Apart from the shock caused by external factors, the state-owned company's structural levels of production continue to fall. According to PDVSA, in May 29.4% less oil was produced (1,050 kb/d) than in January (1,488 kb/d). What is more, given further recent damage to Venezuela's reputation and the US oil sanctions imposed in 2019¹, it has become increasingly difficult to find customers willing to buy Venezuelan crude in the international market.

According to tanker trackers' estimates², Venezuela's exports contracted by 36.6% between January and May, from 1,378 kb/d to 875 kb/d; moreover, the destinations of its exports have changed. Now a larger proportion of the barrels exported go to storage centers in Asia and the Caribbean, and there is even a floating population of tankers carrying crude with no destination that is growing month by month and does not generate cash until a buyer is found³. This will be an increasingly difficult task, as the spot market is showing signs of rejecting Venezuelan crude.

Oil Industry 2019

Crude (mb/d)	January	February	March	April	May
Production	1.49	1.43	0.96	1.04	1.05
Re-exportable imports	0.10	0.08	0.12	0.12	0.12
Available crude	1.59	1.51	1.08	1.15	1.17
Local consumption	0.32	0.31	0.29	0.26	0.24
Estimated inventories variation	-0.11	0.16	-0.38	-0.16	0.05
Exports	1.38	1.05	1.16	1.05	0.87
China debt service	0.15	0.15	0.15	0.18	0.18
Rosneft debt service	0.12	0.12	0.12	0.13	0.13
Petrocaribe & Cuba	0.05	0.05	0.05	0.05	0.09
Cash-generating barrels	1.06	0.73	0.85	0.70	0.48

Sources: Refinitiv Eikon and Ecoanalítica

¹ Weekly report N°3 of 2019: *Endgame*.

² Refinitiv Eikon.

³ According to Vortexa numbers, the total of floating storage reached its maximum point in 2 years in May, impulse by Venezuelan and Iran. Venezuela's proportion over the total tripled from 11.0% in 2018 to 32.0% in the second quarter of 2019.

Even though crude exports continue to contract, PDVSA's and the Venezuelan State's capacity for avoiding honoring their bilateral obligations with China has been reduced in 2019. Last year, while there was still the option of redirecting barrels to the US market in order to generate cash, Venezuela was able to incur in a partial default with its allies. However, this year there is no alternative destination for redirecting these barrels.

In the case of Rosneft, Venezuela has continued to pay its debts⁴ and it will continue to do so until the last repayments fall due at the end of this year. In the case of China, the only possibility for reducing the servicing on its debt is an explicit rescheduling, like the one in 2017⁵.

So, the reduction in production has meant a reduction in exports and in the ability to maintain debt servicing constant; it has also meant a contraction in the number of barrels that generate cash. In order to avoid the contractions being of the same magnitude, PDVSA drew down its inventories during 1Q2019⁶ and reduced its domestic consumption of crude.

Collateral damage

The reduction of domestic consumption has generated widespread shortages of gasoline and other refined hydrocarbons in the local market, contributing to a worsening of the complex humanitarian crisis and serving as a catalyst for greater social unrest, in particular in the interior of the country and in the border states. Moreover, the shortage of gasoline reduced smuggling over the border into Colombia and Brazil⁷, destabilizing the black markets and the border rent-seeking structures⁸.

In this situation of PDVSA's decline and its inability to generate sufficient cash with the few barrels it is producing, the company has resorted to unorthodox strategies. In Jamaica, PDVSA sold its stake in the Petrojam Refinery to the Jamaican Government, which runs the risk of falling foul of US sanctions, and Juan Guaidó (whom Jamaica does not recognize as President of Venezuela) has started negotiations to prevent transfer of ownership⁹.

However, most of these unorthodox measures have failed. The increase in crude stock floating around in international waters with no destination and the inability to generate

⁴ *Russia Says It Received Debt Payment from Venezuela on Time.* [Bloomberg](#), April of 2019.

⁵ Perspective report 1Q2018: 2018: *Uncertainty á la carte. An Outlook of 2018-2021.* The External Sector: *Winter is Here.*

⁶ *PDVSA offers 6.4 million barrels of discounted crude to spot market.* [S&P Global](#), May of 2019.

⁷ Weekly report N° 13 of 2019. *Between the Jungle and the border: Gasoline and cocaine trafficking.*

⁸ *Venezuela's oil crisis destabilises Colombian black markets.* [Al Jazeera](#), June of 2019.

⁹ *Venezuela's Guaido asks Jamaica not to seize PDVSA refinery shares.* [Reuters](#), June of 2019.

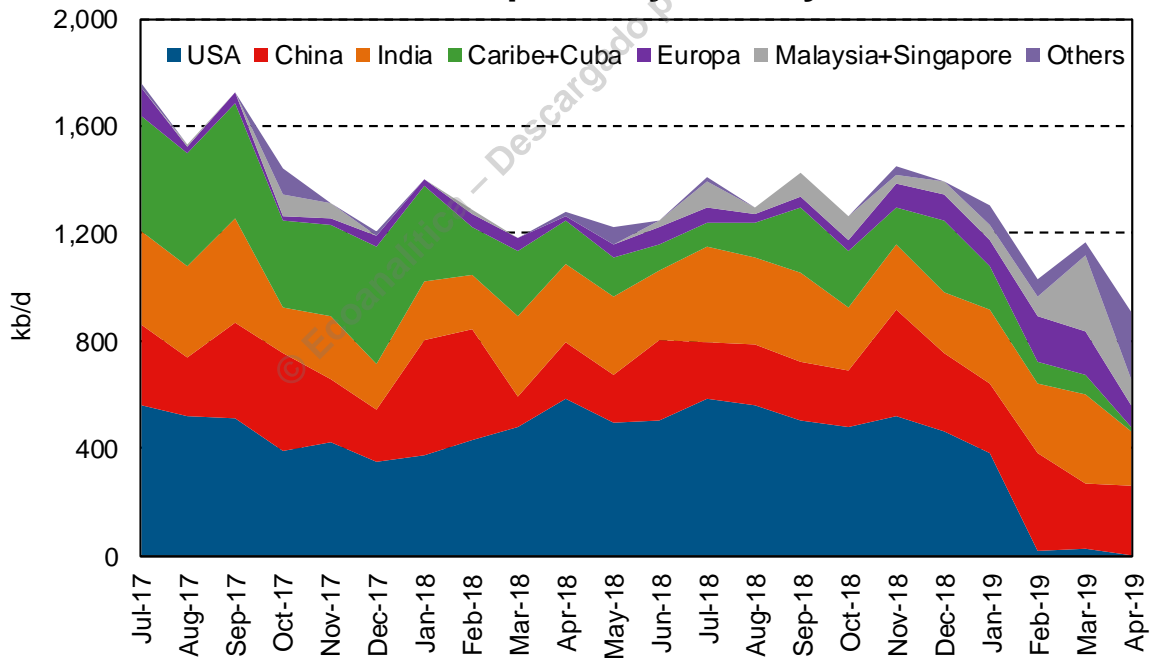
sufficient cash provided the regime with sufficient arguments for removing José Rojas Reyes as PDVSA’s Vice President of Commerce and Supply¹⁰.

Are there any destinations?

In the long term, the most important question will always be the level of production, an issue that will be dealt with in the following sections. However, in the short term, the most urgent issue at PDVSA is where can it send its production? In other words, the supply chain is in decline but customers and sales are disappearing at an even faster pace.

According to data published by Refinitiv Eikon, after the United States withdrew from PDVSA’s list of customers, the main destinations of the tankers that set sail from Venezuelan waters have been China, India, Europe (Spain, Sweden and Germany), Singapore, Malaysia, and several islands in the Caribbean.

Exports by destiny



Sources: Refinitiv Eikon and Ecoanalítica

Note: Refers to the exports that embark out of a Venezuelan port.

The shipments to China go to Petrochina’s refining parks; those that are sent to India go to refineries belonging to Nayara and Reliance; Repsol refines the crude intended for the

¹⁰ Official Gazette N°41,653.

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Spanish market; Nynas refines the crude that goes to Germany and Sweden; and some small refineries take part of the crude intended for the Caribbean. However, a growing portion of exports are being sent to storage centers in Malaysia (Tipco) and Singapore and, in some specific cases, to the United Kingdom (Puma Storage) or to floating storage facilities (Chevron Pascagoula, to name just one).

In 2018, PDVSA started a strategy of scaling back shipments to the Caribbean in order to reduce the subsidy to the islands that are beneficiaries under Petrocaribe and other agreements. In February and March 2019, after the sanctions imposed on January 28, India and Europe increased their purchases to take advantage of the vacuum in the market left by the United States and the competitive prices being offered by PDVSA¹¹. However, as a result of diplomatic pressure from the United States¹², both India and Europe reduced their purchases starting in April. In the case of India, 280 kb/d of US crude filled the void left by Venezuelan crude in May.

Reliance, India's refinery with the largest capacity, has been the most aggressive when it comes to cutting back on imports of Venezuelan crude. Whereas in March its purchases averaged 377 kb/d, in May they came to only 68 kb/d. Nayara has been more obliging. As for the Europeans, Repsol and Nynas are continuing to buy crude, but the storage centers in Belgium, Holland and the United Kingdom have almost completely stopped providing their storage services.

At the same time, PDVSA decided to be more aggressive in reducing subsidized shipments to the Caribbean, but given the lack of a key cash-generating destination, the crude that has been saved has continued to be stockpiled between Malaysia, Singapore, floating storage facilities, and other unknown destinations.

Once the crude is at the storage centers, there is evidence that some of the inventories have been drawn down to generate cash, mainly for China and Russia. However, there is no precise information on this phenomenon.

The hurdles impeding cash flow

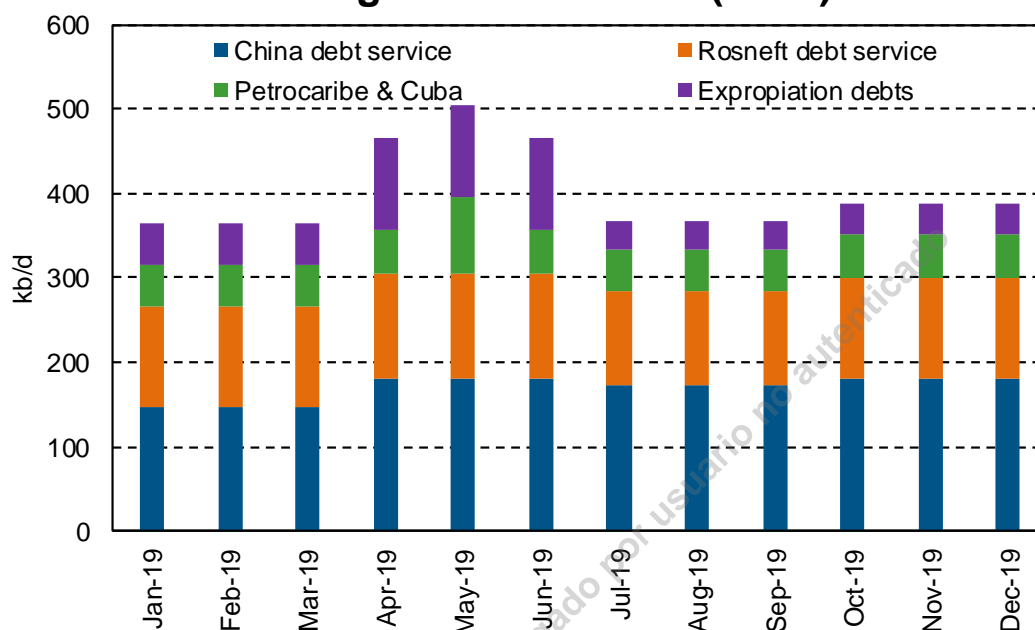
The inability to find destinations for all the barrels available for export is not the only restriction PDVSA is facing when it comes to generating cash. It must also honor its obligations on which it has not defaulted so far, mainly those it has with China, Rosneft, ConocoPhillips, Gold Reserve, and Crystallex, and also the subsidized crude it continues to send to Cuba.

¹¹ Numbers from Refinitiv Eikon.

¹² U.S. presses India to stop buying oil from Venezuela's Maduro. [Reuters](#), March of 2019.

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Obligations in barrels (2019)



Source: Ecoanalítica

In the case of the debt with Rosneft, given the conditions stipulated in the last renegotiation of terms, Venezuela is apparently to allocate an average of 119 kb/d to servicing the debt between January and December 2019 until the last scheduled repayment has been made. Rosneft is to collect part of the debt servicing payment in crude, which Venezuela is to send to Nayara, a refinery in India in which it has a 49% shareholding. Shipments to Nayara went up from 69 kb/d in March to 98 kb/d in April and to 135 kb/d in May. The remainder of the servicing of Rosneft's debt is to be paid by drawing down barrels held in stock in Malaysia and/or Singapore.

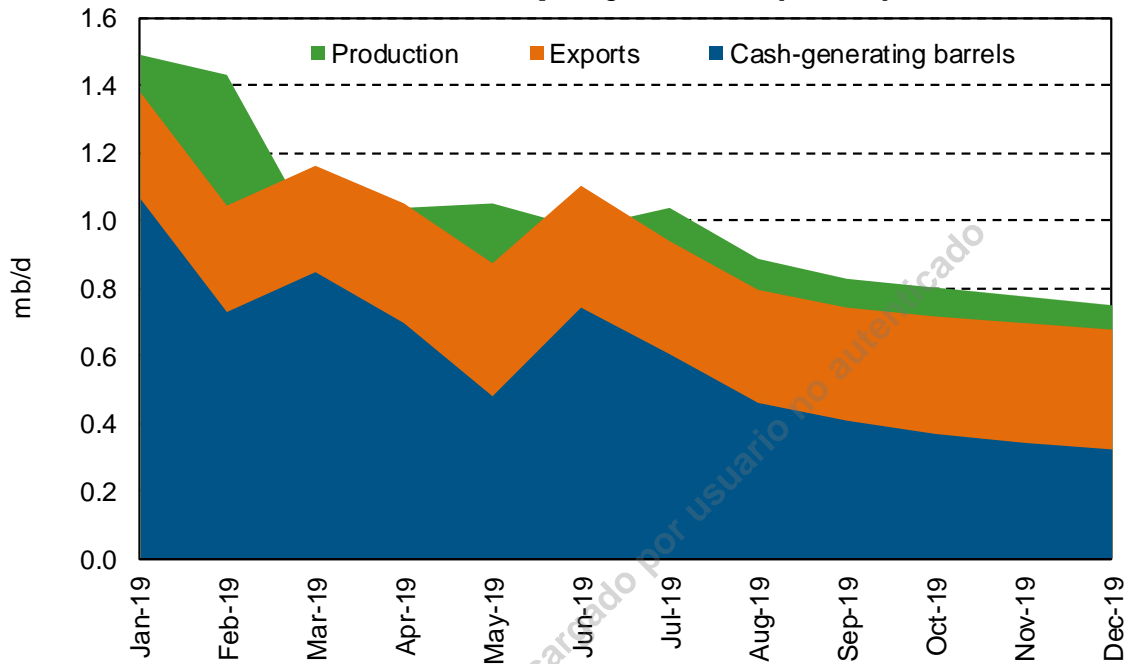
In the case of China, direct shipments have averaged 278 kb/d since US oil sanctions were imposed. In addition, there are reports that China has been buying between 170 kb/d and 200 kb/d (depending on the month in question) of Venezuelan crude stockpiled outside the country. However, foreign trade data published by China shows that PDVSA has been granting huge discounts on every barrel sold since the sanctions went into force.

That discount went as high as 18.6% in February and was 15.1% in March and 16.1% in April; this would be justified mainly by PDVSA's insistence on receiving payment in cash instead of on credit (90 days), as has been the custom.

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Oil sector projections (2019)



Sources: Pdvsa and Ecoanalítica

Note: When exports overcome oil production is due to net inventories deaccumulations.

So there has been a steep and steady contraction in cash-generating barrels from 1.06 mb/d in January to 478 kb/d in May. In June, sources report a temporal increase in exports that boosted the cash-generating barrels to 745 kb/d, a product of inventories allocation in the market. For the rest of the year, we forecast that cash generating decreases near 324 kb/d in December to give an average for the year of 589 kb/d. This would mean an average contraction of 29.6% in 2019 compared to 2018.

A series of unfortunate deadlines

It should be remembered that on January 26 the United States declared PDVSA to be a Specially Designated National (SDN), which, under Executive Order 13,850, means that any United States national or company is forbidden to perform transactions in money or in kind with the Venezuelan state-owned oil company. At the same time, the US Treasury Department's Office of Foreign Assets Control (OFAC) issued a series of General Licenses that allowed some actions that otherwise would have been subject to sanctions.

Some of these licenses have expired over time. On February 27, the pre-established one-month window allowing companies that were going to abandon their operations to

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repatriate their assets expired¹³. On March 29, the time allowed for US employees in non-US companies to resign or to get their employers to stop doing business with PDVSA also expired¹⁴.

These two deadlines have been the most relevant so far in terms of hindering PDVSA's regular production operations in the post-January 28 environment, since they made the relationship between PDVSA and its suppliers more complicated.

At the end of April, the time allowed for collecting oil billings for the period between November 2018-January 2019 from the trust fund controlled by the National Assembly came to an end. During that period, the National Assembly could have managed to collect approximately USD 3.1 billion in blocked accounts, but the impact of this license expiring in April did not have any effect on PDVSA's production capacity.

As for the future, there are only three more licenses that have still to expire: one that permits transactions with Citgo¹⁵; another that permits commercial dealings with Nynas¹⁶; and another that allows five US companies to continue operating¹⁷. In principle, the expiry for all three licenses has been set for July 27.

However, when the National Assembly took actual control of Citgo's operations, the expiry of this license was postponed, potentially indefinitely. In the case of Nynas, negotiations between the National Assembly and the Swedish Government have not borne fruit, as a result of which the expiry of the license has been postponed for three months until the end of October.

For now, Nynas continues to be controlled by the regime and offers refining capacity for nearly 50 kb/d cash-generating barrels a day. If the negotiations do not produce results before November, it is possible that Nynas will lose its license and a key asset for Venezuela will be plunged into bankruptcy, not only restricting PDVSA's capacity for placing barrels abroad in the short term, but also reducing the capacities of a transition government in the long term.

Finally, if the expiry of General License 8 goes ahead, the five US companies that are still working with PDVSA would have to stop their operations at the end of July. For Chevron, this would mean closing down production (nearly 42 kb/d), refining and storage operations. For Halliburton, Schlumberger, Weatherford International, and Baker Hughes

¹³ Clause B, General License 12; Venezuela-related sanctions. OFAC.

¹⁴ Clause A, General License 11; Venezuela-related sanctions. OFAC.

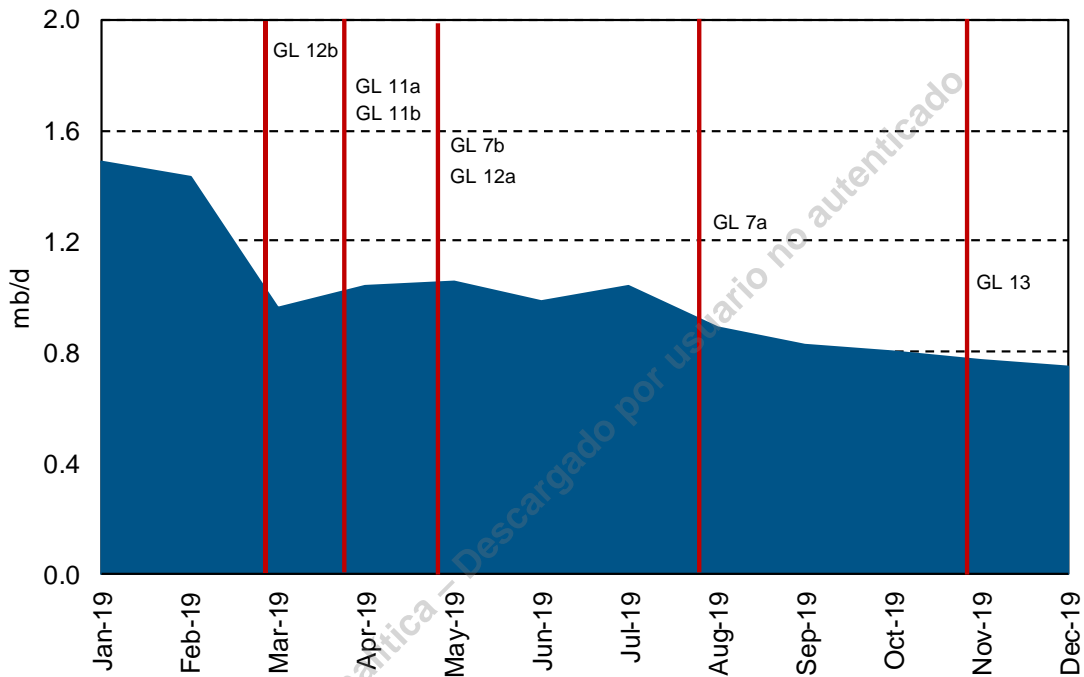
¹⁵ Clause A, General License 7; Venezuela-related sanctions. OFAC.

¹⁶ General License 13; Venezuela-related sanctions. OFAC.

¹⁷ Clause A, General License 8; Venezuela-related sanctions. OFAC.

it would mean no longer providing their services, and in terms of the impact on PDVSA's production, the departure of these service providers could be even more painful than the departure of Chevron.

Oil production vs. GL* Expiration



Sources: Pdvsa and Ecoanalítica

Note: Projected production from June.

*GL: General Licenses.

The measure would make PDVSA more reliant on local companies and Chinese and Russian service providers and would have a structural impact on the industry's production capacity from August onwards.

Between the collapse from within caused by the institutional decline of PDVSA and the external shocks caused by the sanctions, we estimate that Venezuela will only produce approximately 746 kb/d in December and that production this year will average 1.0 mb/d. That would mean a contraction of 44.3% compared to 2018 and of 64.5% compared to 2012.

Military movements

As for the medium term, PDVSA's strategy will be to focus on redirecting its efforts on the crude processing front to achieving a type of crude that is more acceptable by the Asian

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market. So far, Petropiar has been specializing in producing a type of synthetic crude that is compatible with the US market. Starting in July, according to in-house PDVSA documents seen by Reuters, the plan is to transform the productive process of this facility so that it is able to blend heavy and light crudes to the point where the final product has the same formula as Merey crude. Under the same plan, PDVSA will prioritize production in the 13 most compatible with Merey fields and will continue to consider other 20 fields as non-active¹⁸.

It is strange that, just before losing its license, Chevron (the owner of 30% of Petropiar) has agreed to finance part of PDVSA's reshuffling of its production to favor the Asian market; furthermore, it has declined to comment publicly on the matter. The strategy apparently seeks to reduce the discounts on Venezuelan crude and to increase Venezuelan crude prices to its trading partners in the Asian market by reducing its production of diluted crude oil (DCO), obtained by blending heavy crude with naphtha, and increasing the production of Merey.

Little by little, PDVSA is losing its identity and is being transformed into a new organization. Its new allies are Asian, and its level of sales is much, much lower. What is more, it receives less cash for every barrel sold. In 2020, Venezuela's oil industry will be a mere shadow of what it once was and its capacity for leveraging a possible transition government will also be undermined.

Guillermo Arcay Finlay

¹⁸ *Venezuela's Plan to Boost Oil Output Includes Shutting Some Fields.* [Bloomberg](#), July of 2019.

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WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week July	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD)²	6,684.92	3.2	3.1
	3rd Week June	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	28.8	-3.6	7.4
	4th Week June	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	123.9	0.7	123.9
	4th Week June	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.2	0.4	-3.6
	3rd Week June	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	7,618,853	4.6	46,198.3
Price of International Oil Baskets (USD/bl)			
	4th Week June	Weekly chg. (%)	Annual chg. (%)
WTI	58.3	8.4	-17.5
Brent	65.6	5.4	-14.1
Price of the Venezuelan oil basket (USD/bl)			
	4th Week June	Weekly chg. (%)	Annual chg. (%)
Weekly Average	59.4	6.2	-11.5
Annual Average	59.7	0.0	-4.0

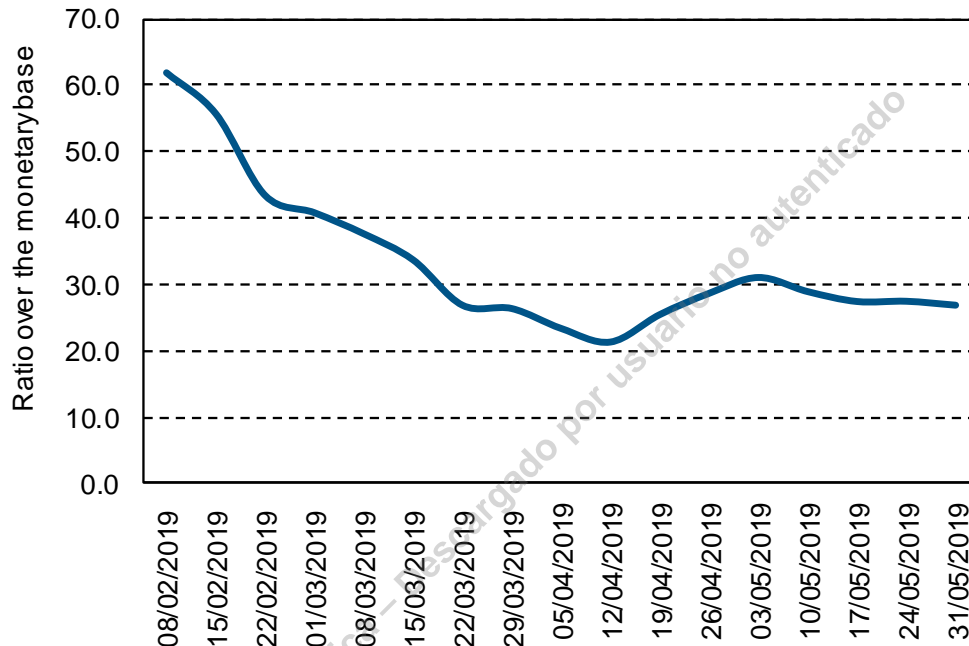
Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)² FX Borads' average exchange rate

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GRAPH OF THE WEEK: “WHAT DO THE CREDITS TELL US?”
Amount of credits disbursed by the BCV to non-financial public firms


Sources: BCV and Ecoanalítica

The government has been implementing adjustment strategies to control the monetary imbalances in the Venezuelan economy since the end of 2018, with the objective, presumably, of controlling foreign exchange pressures and, thereby, the growth in prices. Among the latest data published by the Central Bank of Venezuela we find a new adjustment measure: a reduction in the credits handed over to public sector nonfinancial companies, in particular to PDVSA.

After an increase in these credits at the end of January, we find that this type of financing takes on less relevance in the generation of base money. Initially this change may respond to the government's interest in generating lower inflationary pressures derived from monetary excesses. However, this cutback could also respond to a reduced requirement of these resources by the oil industry given a lightening of its operating burden resulting from the reduced production of crude. Also the narrower gap between the official and unofficial exchange rates has lessened the need for this type of financing since the foreign currency PDVSA sells to the Central Bank is paid for at a price close it

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its market value, something that did not happen when exchange controls imposed a more appreciated official exchange rate.

Even though this reduction indicates that the government seems to be taking the necessary steps to stabilize the Venezuelan crisis in part, experience in regulatory matters allows us to infer that, in a situation of high -albeit less aggressive- inflation, there will be incentives for the regulating authorities to resume the policy of granting direct credits to the oil companies in the medium term, as soon as the political costs that necessarily have to be incurred to maintain these adjustments become unsustainable once again.

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ECONOMIC TIPS

What we owe. A joint study by the National Assembly's Credit Subcommittee and the Center of Dissemination of Economic Knowledge for Freedom (Cedice) reveals that Venezuela's public debt comes to USD 140 billion.

A burden for everyone. When presenting the report, National Assembly Deputy Ángel Alvarado said that the amount of the debt per capita was USD 6,000, significantly higher than the amount estimated for 2017 (USD 3,900 per person) and even higher when compared to 1999 (USD 1,200 per person).

A breakdown of the load. Estimations calculated by Cedice and included in the report reveal that, as at May 2019, Venezuela had defaulted on approximately USD 11.17 billion. Of that amount, the Republic had not paid USD 7 billion (USD 5 billion in capital and USD 2 billion in interest) and PDVSA had accumulated a debt of USD 3.5 billion in interest.

Could it be worse? Besides that, Venezuela has accumulated liabilities with China over the past eight years, putting the total debt entered into at an estimated USD 54 billion, USD 19.2 billion of which is still outstanding.

Tax collection for June. According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VES 1,354.2 billion were collected in taxes for the month of June. In nominal terms this means a 118,212.1% increase compared to the same month the previous year. Of this amount, VES 167.0 billion came from Income Tax, and VES 787.0 billion from the VAT.

In real terms. Total revenue in June of 2019 compared with the same period last year decreased by 86.5%. The VAT decreased 93.6% in real terms and customs revenues also decreased 88.8%. Meanwhile, income tax revenues decreased 79.0% in real terms over the same period of 2018.

The food basket reaches VES 2.6 million. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Food Family Basket (Canasta Alimentaria Familiar - CAF) in May 2019 was VES 2,552,836.4, an increase of 32.7% with respect to the prior month, and 115,865.3% with respect to May 2018.

The behavior of the CAF in May. was marked by an increase in beans (74.8%), tubercles and others (56.7%), coffee (52.9%), fats and oils (49.6%), sauce and

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mayonnaise (46.3%), fish and seafood (41.9%), meat and meat products (32.9%); fruit and vegetables (31.3%).

Foreign Exchange Desks. For July 2, the average exchange rate at the foreign exchange desks was VES 6,685.9/USD, for a depreciation of 3.1% compared to last week. Nevertheless, the unofficial exchange rate maintains a premium of 13.5%.

State-owned versus private banks. The private banks traded at an average exchange rate of VES 6,625.5/USD, whereas the rate established by the state-owned banks was lower, at VES 6,739.0/USD.

OIL TIPS

Making changes. Following the imposing of US sanctions on PDVSA, the state-owned oil company has had to adjust its operations in order to be able to generate crude called for by Asian refiners, according to the news agency Reuters.

A change in strategy. The changes that are being made include having Petropiar switch over to being a facility that blends heavy and light crude starting in July. Originally this company produced up to 210,000 barrels a day (b/d) of exportable synthetic crude.

Difficulties. These measures are being taken after local stocks of synthetic crude increased once US refineries stopped buying it. This plan has some logistical problems, however.

An uphill task. Achieving the levels of oil production needed for blending is not an easy task. Account also has to be taken of the fact that sanctions have restricted PDVSA's imports, which is an obstacle for the viability of this plan.

Merey. The idea PDVSA is working on is to obtain a heavy crude called Merey by blending extra-heavy oil with lighter grades, reports Reuters. According to in-house PDVSA documents, Merey will account for 822 kb/d of the 900 kb/d PDVSA plans to export in July. Earlier this year Merey exports came to only 500 kb/d.

Asia is our customer. Today PDVSA's main customers are Asian: China National Petroleum Corp (CNPC) and its subsidiaries, Reliance Industries and Nayara Energy, both of India, and Tipico Asphalt of Thailand. Reuters reports that Asian refineries are better equipped to handle blended crudes than US refineries.

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Limitations. Once again, this strategy of PDVSA's has emerged as a result of the restricted situation the company finds itself in. Naphtha imports are limited and Venezuela's refineries are struggling to obtain supplies.

A two-step plan. The action plan is for Rosneft, Total S.A., and Equinor, all operated by PDVSA, to temporarily mix extra-heavy crude with naphtha for transportation and to then blend it to formulate Merrey.

Corruption in Curacao. The former manager of Curacao's refinery and its consultant were arrested on charges of corruption in connection with the selection of a new operator for the facilities rented by PDVSA, according to Reuters.

Eeny meeny miny moe? A US court is to decide which of Citgo's two boards of directors will run the refinery. At the moment, two boards –one appointed by the Nicolás Maduro regime and the other appointed by Juan Guaidó– are in a dispute over who will manage the refinery.

+100 kb/d in April. Argus Media reports that Chevron imported more than 100 kb/d of Venezuelan crude in April. The company received 104 kb/d of crude at its Mississippi refinery compared to 340 kb/d in March. As for Citgo, it imported around 10 kb/d in April for its refinery in Lake Charles, Louisiana.

End of the contract. On top of that, Chevron has until July 27 to stop its operations in Venezuela. The company says that it has been operating in line with all the regulations and laws established by the US Government. Officials at Venezuela's Ministry of Oil commented to Argus Media that they expected to obtain an extension that would allow Chevron to continue operations.

Gas market. Rosneft, Russia's state-owned oil company, is obtaining concessions in Venezuela in order to get into the foreign gas market cheap, which could be a headache for the United States and Europe.

The contracts. The agreements between Venezuela and Russia that are under discussion would give Rosneft tax breaks for producing and exporting gas from the Patao and Mejillones fields on Venezuela's east coast. The document also establishes a "fair market price" in the event of expropriation.

BUSINESS SECTOR TIPS

Bye-bye Bayer. The German pharmaceutical company Bayer announced that its facility in La Trinidad is to cease operations. This decision is part of a new sustainable business model for guaranteeing the supply of medicines and agricultural and animal husbandry products in Venezuela. The company said that it would continue to join efforts with other countries in order to be able to adapt to the demands of the local market.

A new strategy. *“This measure is based on complying with local and international laws, our corporate values and the social responsibility that govern all our actions in the countries where we are present,”* said the company in a press release.

30%. Tito López, the president of the Pharmaceutical Industry Chamber (CIFAR), reported that the production of medicines in Venezuela is at 30%, a reduction of 49.1% over the past few months. He commented, *“We have a reduction in the private market, a non-utilization of the entire distribution chain, and, unfortunately, a destruction of the system of price formation.”*

63%. In its report on access to and availability of food in Maracaibo, the Zulia State Human Rights Committee reported that the state’s capital was posting food shortages of 63%. In 11 out of the 20 food items monitored, the shortages were more than 66%.

Shortages and inflation. The food items experiencing the biggest shortages were eggs, black beans, and chicken wings, according to the report. Besides that, black beans were the food item that had experienced the biggest increase in price (478%). Animal proteins, such as beef and chicken, posted increases in price of 146% and 120%, respectively.

Aftermath of the mega power out. The report also explains that Zulia was extremely hard hit by the nationwide mega power outs in March. Some of the consequences were looting and businesses not opening for fear of being looted. According to the Committee, 13 out of the 46 establishments surveyed were closed in March and five of those were vandalized.

Power outs continue. On June 30, Corpoelec registered a power out in Táchira, Mérida, Apure and Zulia. Aixa López, the chairperson of the Committee of those Affected by the Power Outs, said, *“There have been 32,236 interruptions in the electricity service throughout the country between January and June, according to the reports from local committees in each region.”*

Missing funds mean lights out. National Assembly Deputy Jorge Millán commented that USD 40 billion allocated to the generation of electricity “*got lost en route.*” This is money that could have resulted in the generation of an additional 40,000 megawatts that are not available today, when only 8000 megawatts are currently being generated.

Emerging dollarization. Maracaibo Chamber of Commerce reported that the findings of its survey on the use of foreign currency in transactions between local agents revealed that 94% of companies and merchants perform their operations in foreign currency.

Sources. The survey also revealed that 83% of the 350 companies that are members of the Chamber of Commerce obtain their foreign currency in the informal market, 10% from savings portfolios or their own funds, and only 3% via the formal market.

USD, EURO and COP. Moreover, 96% of the companies use US dollars in their transactions, 2% use euros, and the remainder said they used Colombian pesos. In addition, 79% of the companies said that part of the remunerations paid to their workers was in a foreign currency.

In Latin America. The news agency *Efecto Cocuyo* reports that the number of Venezuelan in the Latin American region has gone up to more than three million, according to figures issued by the Organization of American States (OAS). Colombia is the country with the largest number of Venezuelans (1.3 million), followed by Peru with 850,000.

A number that is on the rise. What is surprising about this figure is how the number of Venezuelan migrants has risen so much in countries that were not common destinations for Venezuelans. Trinidad & Tobago, for example, has 40,000 immigrants from our country, and Paraguay has 5,000, according to figures published by the OAS.

Out in the world. Another astonishing figure in the report published by the OAS is that around 5,000 Venezuelans are leaving their country every day. It also comments that the number of emigrants could as much as double to 8 million by 2020. At the moment there are 4 million Venezuelans outside their country. Also according to the OAS report, last year 101 people died when trying to flee the country.

WORLD ECONOMY TIPS

Consensus reached by the G-20. In a final statement, the leaders of G-20 (the group of the world's 20 leading economies) warned that economic growth was weak and that there was the risk of it slowing down as trade and geopolitical tensions increase.

No mention of protectionism. The statement reaffirmed the idea that the group would make an effort to encourage *“investment and fair, nondiscriminatory, transparent, predictable, and stable trade and maintaining our markets open.”*

Dispute settlement is key. Japan's Prime Minister Shinzo Abe concluded that the G-20 Summit was in accordance with the fundamental principles that back a system of free trade and that the group promised to be more actively committed to improving the World Trade Organization's (WTO) dispute settlement system.

There was consensus, but no innovations. Vladímir Putin agreed with Abe. The summit achieved a consensus of those present to work to improve the global trade system and a reform of the WTO. However, he added that there were no innovative decisions.

It is official: back to the negotiating table. The United States and China agreed to resume negotiations to reach a trade agreement after US President Donald Trump offered certain concessions in order to reduce tensions, such as giving up imposing new tariffs and making restrictions on Huawei more flexible.

Customers, at least. However, no date was set for reaching a settlement. Trump said that China had agreed to make unspecified purchases of US agricultural products, whereas the United States would hold off on the application of new tariffs.

The same old warnings. The president of the European Commission, Jean-Claude Juncker, described the present relationship between China and the United States as “difficult,” adding that it was causing trade frictions that are contributing to a slowdown in the global economy.

Getting ready for the future? Juncker also said that the European Union is working together with the United States, China and Japan to reform the WTO.

Heading for the new world. A draft free trade agreement was reached between the European Union and the Common Market of the South (Mercosur), which is made up of Argentina, Brazil, Uruguay and Paraguay. This was achieved at a meeting in Brussels after meetings between the two blocs held over the past 20 years.

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Giving the OK. The agreement was promoted mainly by Spain and Germany. However, France's President Emmanuel Macron described it as "good," adding that it met France's key demands. France had been skeptical regarding the signing of the agreement due to its perception that Brazil was not prepared to abide by the Paris agreements and because of how its agricultural sector might react.

Remember there's a limit. Philip Hammond, the United Kingdom's Chancellor of the Exchequer, warned that the UK's departure from the European Union without an agreement would use up the extra money in the budget. This comment by the chancellor came after Boris Johnson and Jeremy Hunt promised to raise public spending and cut taxes in their respective campaigns to become Prime Minister.

POLITICAL TIPS

How much more? Lieutenant Commander Rafael Acosta was declared dead on June 29 at Forte Tiuna's hospital facility (*El Hospitalito*). Acosta was arrested by the General Military Counterintelligence Directorate (DGCIM) on June 21 for his participation in an alleged coup d'état planned for June 23 and 24.

Another Albán. It is suspected that Acosta was tortured while in the custody of the DGCIM to the point where he was unable to get up from his wheelchair during the preliminary hearing of his case before the court on June 28. Acosta, who had been under arrest since June 21, was unable to recall practically anything about the time he had been held in prison and found it extremely difficult to speak.

Just two of the many who are to blame. Rafael Acosta's lawyer said that two officials of the DGCIM had already been arrested for the murder of the Lieutenant Commander. He also commented that the authorities pretended to accuse the alleged perpetrators of homicide, "*ignoring legislation against torture.*"

Bachelet gets involved in the case. The United Nations' High Commissioner for Human Rights Michelle Bachelet expressed her consternation at the murder of Lieutenant Commander Acosta. In a communiqué she said it was imperative that the Venezuelan authorities carry out a "*rapid, exhaustive, effective, independent, impartial and transparent investigation into his death.*"

Protection for the others. Bachelet also called on the Venezuelan authorities to allow the other six military officers and former security officials who have been arrested to have

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visits from their family members and lawyers and that they make sure that the prisoners are treated with humanity and dignity.

From the United States to Oslo. Elliot Abrams, the United States' special envoy for Venezuela, confirmed that he had held a meeting with Juan Guaidó's negotiators who have taken part in meetings organized by the Norwegian Government.

The weak side of the negotiations. After his meeting with Guaidó's representatives, he was critical of the negotiations. *"We are not skeptical regarding the talks or regarding the Norwegian effort. We are skeptical regarding whether the regime is serious about them,"* he said.

Ready for another round. According to Reuters, Nicolás Maduro's team and the opposition led by Juan Guaidó are to resume discussions to seek a solution to the political and economic crisis. Sources consulted said that it had still not been decided whether the encounter would take place in the Norwegian capital, Oslo, or in Barbados, and that it was expected to take place next week.

Requesens' trial starts. When the hearing held at the Palace of Justice was over, Deputy Juan Requesens was accused of *"attempted first-degree murder with malice aforethought."* His sister, Rafaela Requesens, said there was no proof of her brother's participation in the alleged assassination attempt and those who had been charged in the case said *"they had been subjected to torture."*

Blind Justice. Rufo Antonio Chacón, a 16-year-old, lost both eyes during a protest in Táchira due to rubber bullets fired by a National Guardsman. The protest was on July 1 over the lack of gas in the community, which was immediately suppressed by National Guardsmen and members of the Bolivarian National Police Force.

Sent home. On Saturday, the Venezuelan Government released and deported 59 Colombians who had been "arbitrarily" held under arrest since August 2016 accused by the Nicolás Maduro administration of being paramilitaries. It is presumed that the release was as a result of influence brought to bear by Bachelet's visit to Venezuela last week.

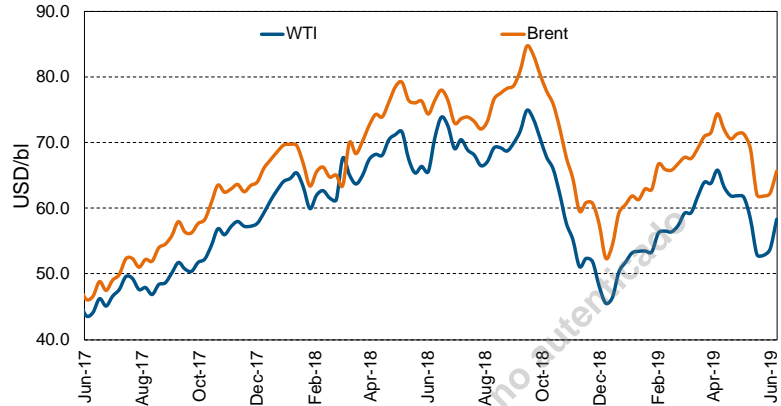
Germany and Venezuela resume normal relations. Venezuela's Minister of Foreign Affairs Jorge Arreaza announced that the Venezuelan Government had agreed to the return of Germany's Ambassador Daniel Kriener, who had been expelled in March, to Caracas. Arreaza claimed that they were seeking to *"normalize diplomatic relations between the two States."*

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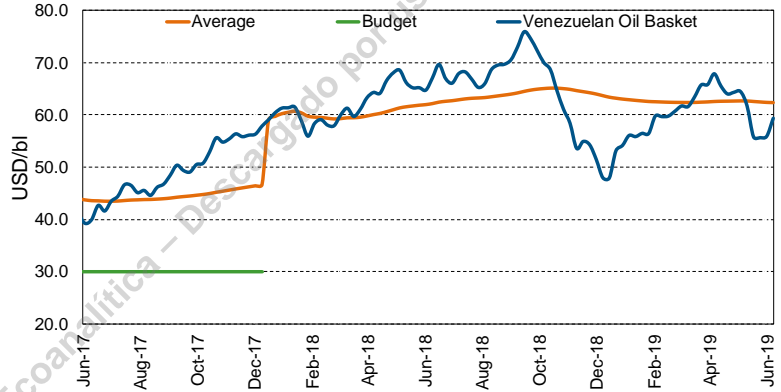
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



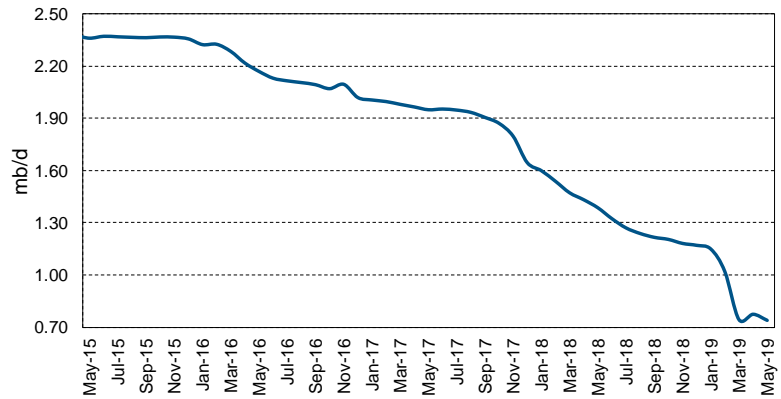
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

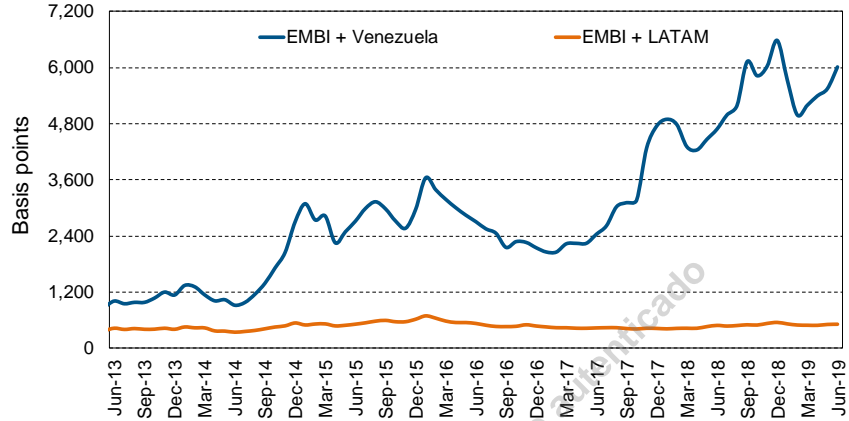


Sources: OPEC and Ecoanalítica

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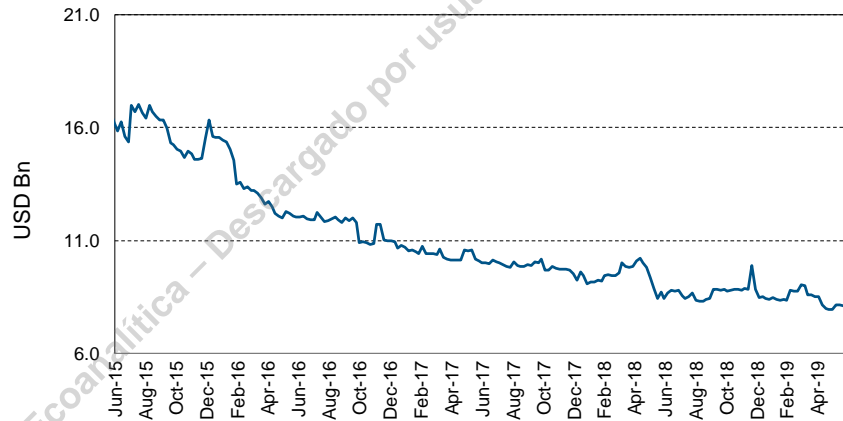
ECONOMIC INDICATORS

EMBI



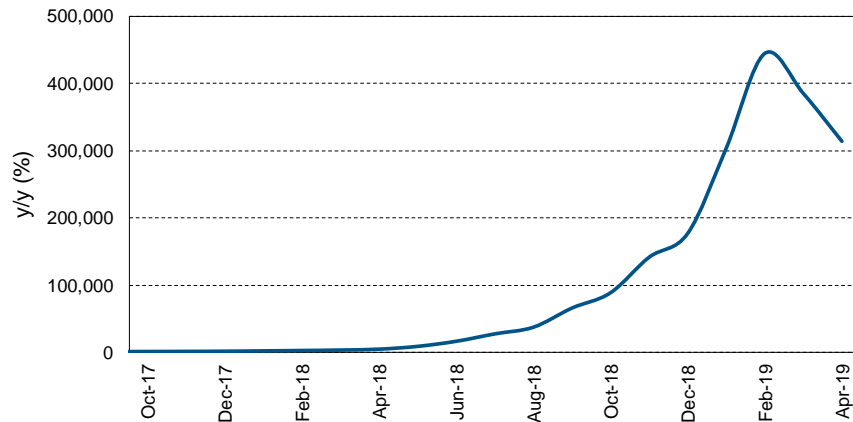
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

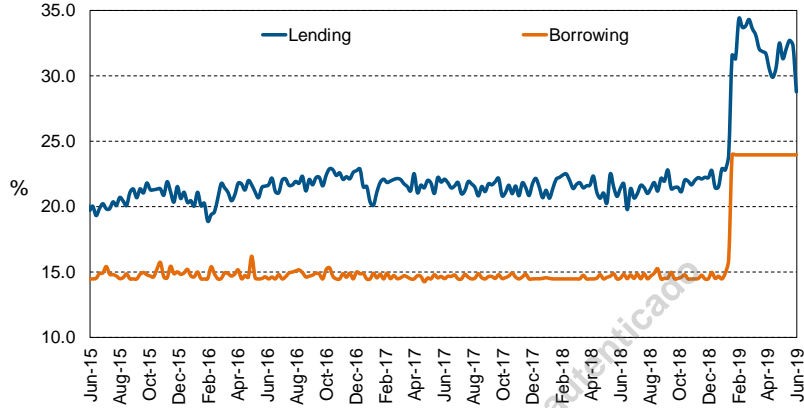
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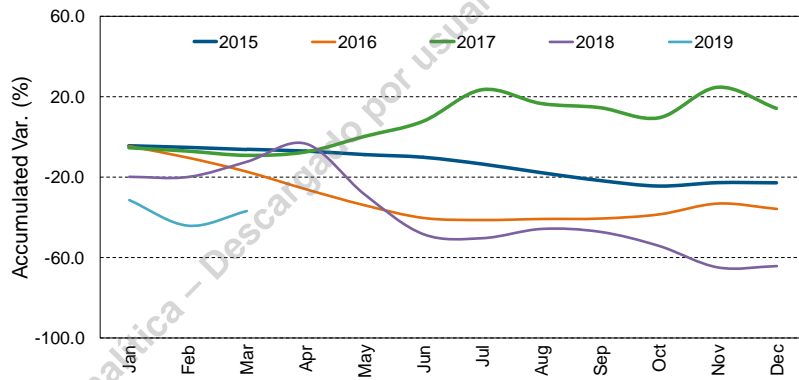
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



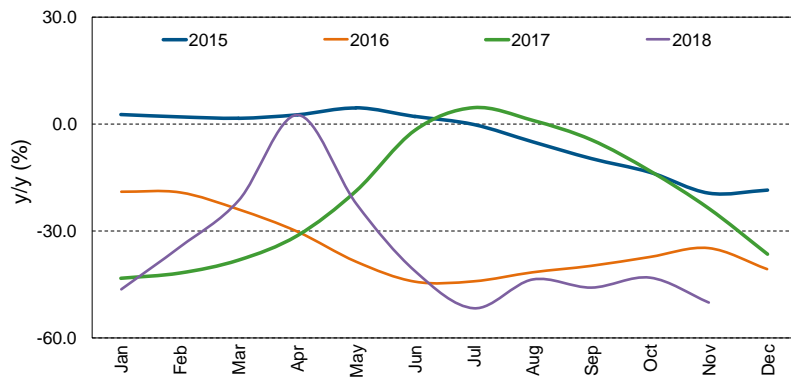
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



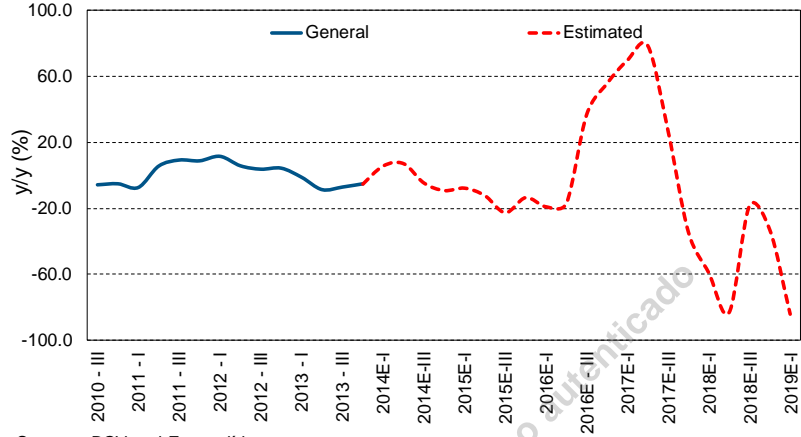
Sources: SUDEBAN and Ecoanalítica

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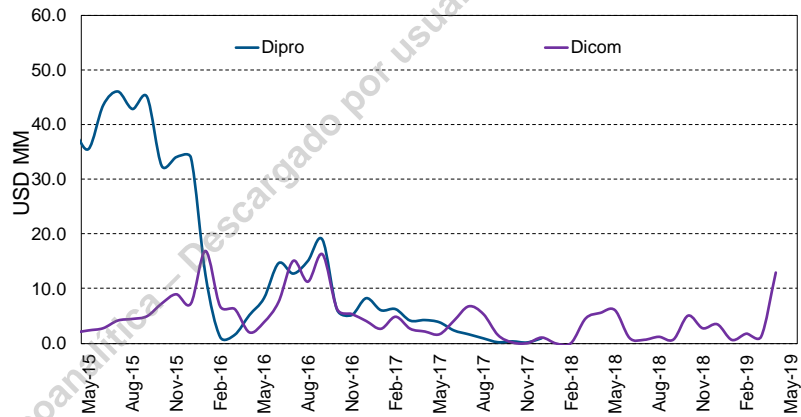
ECONOMIC INDICATORS

Real Wage Index



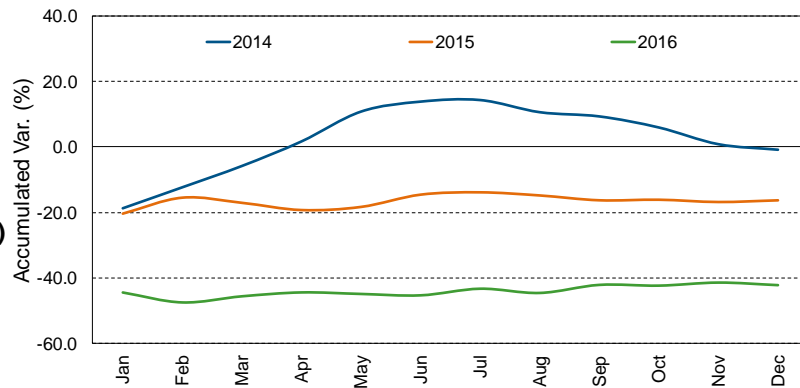
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

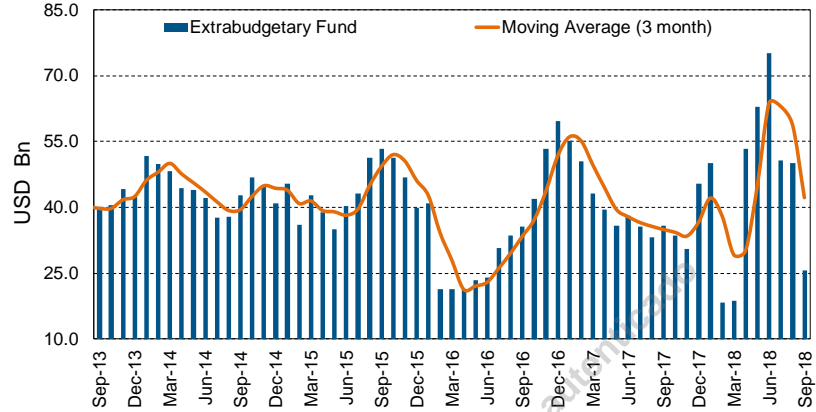
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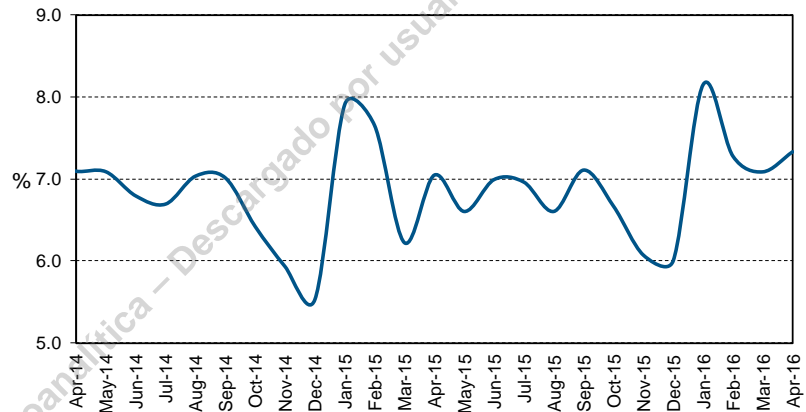
ECONOMIC INDICATORS

State Extrabudgetary Resources



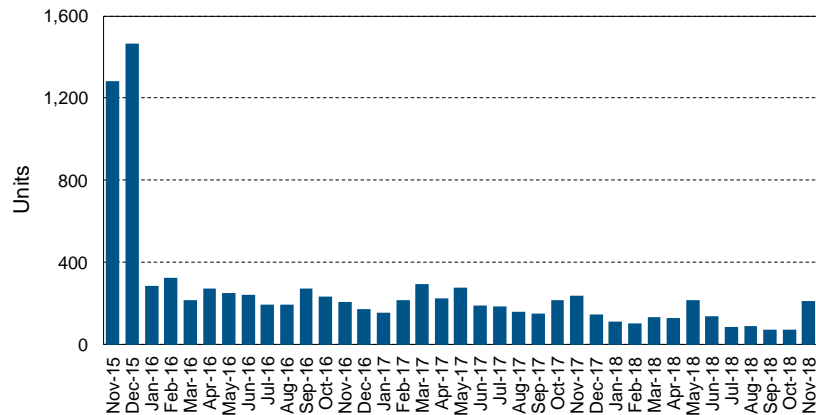
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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