



# Weekly Report

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*What will happen to oil?:  
Outlook Report Second  
Semester 2011*

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At the beginning of this year, in **Ecoanalítica**, we stated that geopolitical instability in the Middle East and North Africa would be what would control and move the international oil market in 2011. Now that the first semester of 2011 has past, we can say without a doubt that that was exactly what happened, is happening, and will happen, up until the end of the year at least when OPEC members are scheduled to meet again.

Problems in the aforementioned region are such that investments need to keep the oil industry producing sustainable long term volumes of crude oil are in doubt, and have been relegated to a let's-wait-and-see-what-happens mode. This is not good considering the increasing trend worldwide oil consumption has reflected. So, it's a valid question to ask: will oil prices continue to increase?

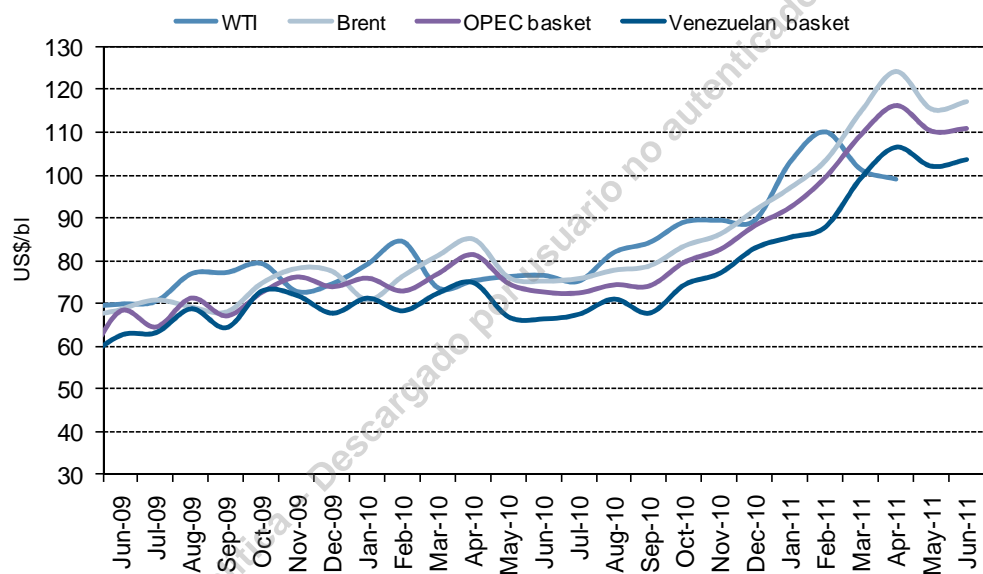
### Market prices increasing

During the first six months of 2011, crude oil prices have increase by 39.2% compared to the same prod last year, and by 24.9% compared to the close of 2010. This was due not only to the geopolitical unrest in the



Middle East, but also to the increasing worldwide demand for oil, especially by emergent economies spearheaded by China and India, in detriment to those economies belonging to the OECD (especially the U.S. and Europe).

### Oil prices



Sources: MENPET and Ecoanalítica

This said, there are also rumors circulating, stimulating fears that recovery will be less than expected for the worldwide economy. But the main players within the international oil market, namely OPEC (with respect to supply) and International Energy Agency member countries (with respect to demand), have stepped in and made it abundantly clear that their designs with respect to future oil prices, are different.

### OPEC

With regard to oil producers, OPEC's last meeting held in Vienna last June 6<sup>th</sup> had as the centerpiece of its agenda to decide how much to increase oil production quotas by, in order to stabilize volatile crude oil prices. The meeting ended without a consensus. In fact, members were not even able to reach an agreement regarding Libya's drop in oil production, which is down 135 million barrels a day, which is equivalent to 23% of the country's yearly production.

Oil production quotas, which have been set at 24.8 mb/d since 2008, were not readjusted. Current oil production has fluctuated at around 26.2 mb/d,



in other words, 1.4 mb/d higher than the quota set (it was 2.4 mb/d higher up until Libya began to drop its oil production due to the conflict it is going through). So, looking at current production levels, and taking into account how production levels are clearly surpassing the quotas which had been set, was an extremely positive sign to the market. But the OPEC meeting, as it turned out, seemed to be nothing more than perfunctory, complying with a scheduled event, and leaving the door wide open for oil prices to sail past the US\$100/bl mark in the short term. Of course, the impact of this decision goes a bit further than this, from OPEC's point of view of course.

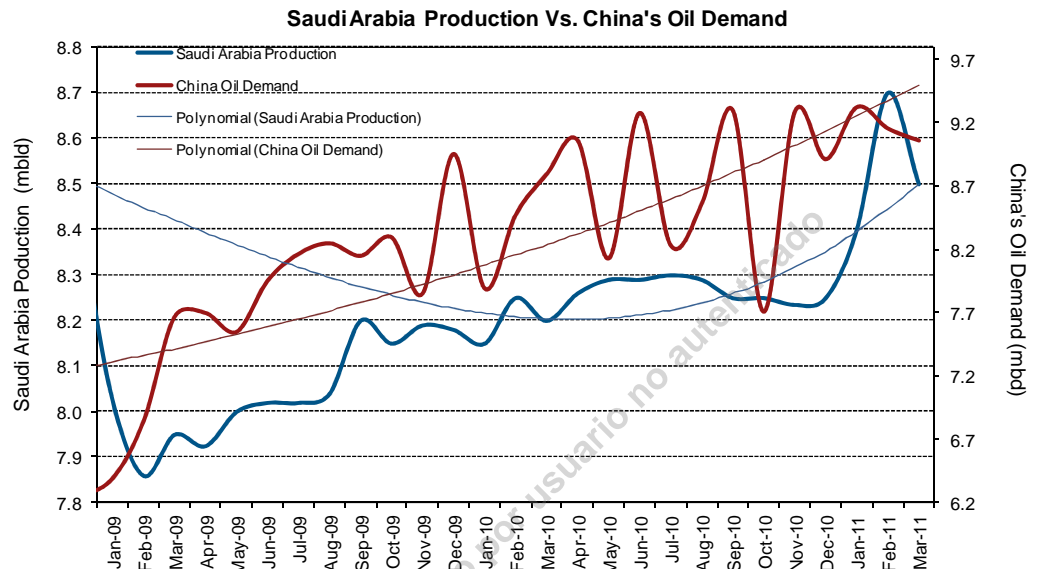
This posture, adopted by most of the cartel members, shied away from any decision which would have guaranteed a significant increase in oil production. At *Ecoanalítica*, this leads us to believe that OPEC will not be the force behind any push to stabilize oil prices, or at least, not until its next meeting in December 2011. With this, OPEC members have eliminated almost any obstacles to any course of action to Saudi Arabia or the main oil importing countries may wish to pursue.

### **Saudi Arabia, the #1**

Given the increase in demand for oil which took place last year (the highest in 30 years), Saudi Arabia (the world's main oil producer) has increased its oil production since November 2010, reaching now 9.0 mb/d, surpassing the quota set by OPEC by almost 1.0 m/d. In a world where Saudi Arabia controls 79.3% of the world's oil producing capacity, key decisions regarding oil production are being made unilaterally, and the country's position at G20 meetings confirms this.

Unrest in the region, especially with neighbors Yemen and Bahrain, has led to Saudi Arabia increasing spending, significantly increasing its fiscal needs. This means that the distancing which exists between Saudi Arabia and OPEC doesn't constitute a disadvantage, since the increase in Saudi Arabia's oil production to stabilize prices allows the country to interact with consumers as well as with producers without having to compromise its relationship with either one. This is what you call real market power.





Sources: JODI, Bloomberg and Ecoanalítica

At **Ecoanalítica**, we believe that Saudi Arabia and many of the OPEC member countries are expecting oil prices hovering around the US\$100/bl mark. Saudi Arabia's increase in public spending has influenced the posture adopted by many oil producing countries to defend this price level. Consequently, we believe that the US\$100/bl mark is what used to be the US\$70/bl mark last year. Remember that last year oil producers, in order to be able to maintain required investments and meet increased worldwide demand for oil, said that prices had to be kept above US\$70/bl. Now it seems that the level has been increased (US\$100/bl) and the resources are being used for fiscal needs, but the posture and the argument is the same. Venezuela and Nigeria are good examples of this.

**Consumers,  
what do they  
say?**

From the perspective of demand, the International Energy Agency has pointed out that given the seasonal increase in demand for oil between May and August, members of this group will work alongside oil producing countries and non-member oil consuming countries to ensure that 2.0 mb/d will be injected into the market in order to face the growing demand for oil from emergent markets.

According to the International Energy Agency (IEA), which post conservative figures when it comes to estimating worldwide oil demand, the drop in crude oil demand by OECD countries will be at around 230,000 barrels a day (kb/d) for 2011. This drop in demand will be totally



compensated for by China; and furthermore, Japan, despite recovering from its devastating earthquake/tsunami damage, will increase its demand for crude oil by 60 kb/d this year. IEA projections for increase in demand of crude oil for China and India this year are at 630 kb/d and 130 kb/d respectively, while projection for the United States and Europe declines are at 150 kb/d and 140 kb/d, respectively.

The picture is a little different with respect to crude oil supply, though still quite positive. From the optimistic perspective of the OPEC, the increase in crude oil supply, excluding Libya, is up 2 mb/d compared to last year. In fact, the cartel expects crude oil production (excluding Libya) to increase by 1.65 mb/d during the second semester 2011 compared to the first semester 2011.

Taking into account the latest information released by the different energy agencies, on average, most of them increased their estimates for worldwide demand for crude oil, expecting a y/y increase of 1.3 mb/d. With respect to crude oil supply, agencies estimate an average increase of 0.5 mb/d on a y/y basis for countries not a member of OPEC; and with respect to OPEC member countries, an average y/y increase in supply of 0.3 mb/d.

Global Supply and Demand (consensus)	2009	2010	Annual change (mb/d)	2011-I	2011-II	2011-III	2011-IV	2011	Annual change (mb/d)
<b>Demand</b>	<b>84.9</b>	<b>87.1</b>	<b>2.3</b>	<b>87.7</b>	<b>87.6</b>	<b>89.4</b>	<b>89.5</b>	<b>88.6</b>	<b>1.5</b>
OECD Demand	45.6	46.1	0.5	46.4	45.1	46.4	46.8	46.1	0.1
Non-OECD Demand	39.3	41.1	1.8	41.6	42.6	43.0	42.7	42.5	1.4
<b>Supply</b>	<b>84.9</b>	<b>87.0</b>	<b>2.1</b>	<b>87.9</b>	<b>87.7</b>	<b>87.9</b>	<b>88.4</b>	<b>87.6</b>	<b>0.7</b>
Non-OPEC Supply	51.1	52.2	1.1	52.7	52.9	52.8	53.2	52.7	0.5
OPEC NGLs + CNC	4.7	5.2	0.5	5.5	5.7	5.8	5.8	5.5	0.3
OPEC crude	29.1	29.5	0.4	29.7	29.1	29.3	29.4	29.4	-0.1

Sources: IEA, EIA, OPEC and Ecoanalítica

### Prices continue to increase

Based on what we have just presented above, at **Ecoanalítica** we expect oil prices to continue to increase in the short and medium term. In 2011, we expect the international Brent marker to be at around US\$102.5/bl. If we consider the standard differential that exists between the Brent price and the price of a barrel of Venezuelan crude oil, our calculations would show that the average price of the Venezuelan oil basket to be at US\$94.4/bl for 2011 and at US\$95.72/bl the following year, with crude oil remaining above the US\$106.4/bl mark in the medium term. We recognize that this scenario is conservative, but it is convenient to be conservative about oil.

### How will this impact Venezuela?

We at **Ecoanalítica** still believe, despite oil prices that are envious by any other government for the years to come, that recovering PDVSA will be a



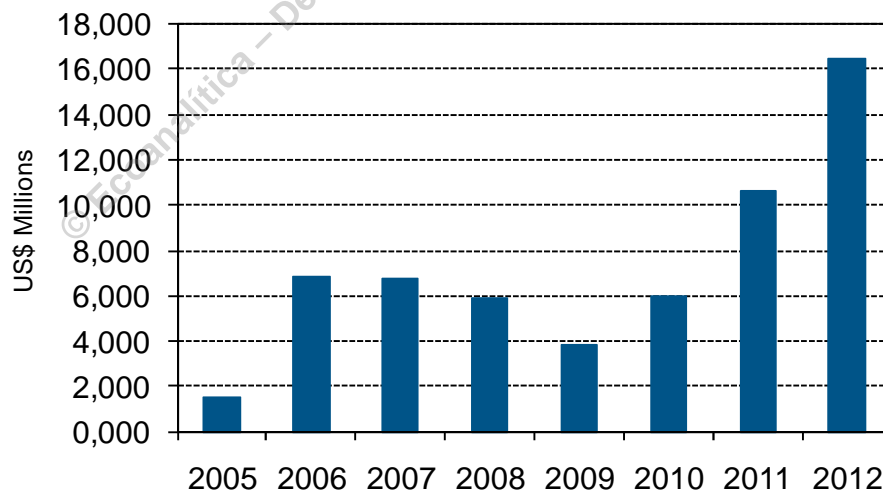
very complicated task, and that, growth, if any, will be very little, above all after the increased fiscal pressure by the Administration (given the political cycle) as a result of the amendment of the Law on Special Contribution from Extraordinary and Exorbitant prices on the International Hydrocarbon Market.

At **Ecoanalítica**, we believe that this measure, besides making it possible to raise more resources, grants more freedom of action over a larger part of the available resources. Therefore, this tax provides the government with a larger amount of resources for the discretionary spending, to the detriment of a better position for PDVSA's cash flow for investment.

### More revenue for the Administration

According to our calculations, if the average price of the Venezuelan oil basket lies at around US\$95/bl for the whole year and exports are at around 1.6 mb/d, the Administration could take in around US\$10.64 billion this year just through this windfall tax, and for the following year around US\$16.44 billion, and this is in a conservative scenario.

**Pdvsa's contributions to Fonden**



Sources: Pdvsa, GO, Bloomberg and Ecoanalítica

At the beginning of the year, we expected that PDVSA would be able to increase its oil production by about 100 kb/d; now, thanks to the new modifications made to the windfall tax, we believe that PDVSA will just try to stop oil production from falling and will focus on its relations with contracting companies and the mixed companies. As things stand, it doesn't look like oil production will be contributing much to economic



growth, and it's the Executive that is the big winner with more resources at its disposal to use as it sees fit.

**A positive aspect** During the past few years, the subject of PDVSA's oil production figures has been seriously debated and questioned, with PDVSA releasing one set of figures and international energy agencies releasing another set of figures. Recently, the International Energy Agency (IEA) reviewed its estimates regarding Venezuelan oil production during the past four years (2007-2010), increasing its estimates by an average of 400 kb/d. This reduces the gap that exists between IEA figures and PDVSA official figures to 350,000 barrels a day. This is a positive point when it comes to generating more confidence from the different economic agents regarding PDVSA's oil production, especially with respect to international investors.

**It's not all said and done** However, if investment plans materialize in the medium term and oil price maintain the levels we are predicting here, the performance of the Venezuelan oil industry will definitely improve. Remember, oil prices don't have ideology, they can benefit anyone.

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## Economic Tips

**U.S. \$1,500 in reserves to Fonden will.** President Hugo Chavez announced that US\$1,500 million of excess reserves will be transferred to the National Development Fund (Fonden). He explained that the optimal level of reserves is about US\$27,000 million, but at the end of June reserves reached US\$28,658 million. In late July the first US\$1,000 million will be transferred and another US\$500 million will be delivered in August.

**Inflation outlook remains.** The president of INE, Elias Eljuri informed that the inflation reported in June of 2011 reached 2.5%. This indicator guarantees that the National Budget's inflation outlook will remain as projected, between 23% and 25% by end 2011. He also reiterated that the first semester's y/y inflation reached 23.6% and, compared to 2010's y/y numbers (31.3%), there was a significant reduction.

**Chavez: Government holds inflation back.** President Hugo Chavez informed that the Bolivarian Government was holding inflation back this year with the right policies to avoid price speculation. June's inflation reached 2.5%, *"we keep holding inflation back, we still don't have the official data of the second quarter growth, we'll have it in a few weeks, but there are good indicators."*

**Central Government spending grew 3.8%.** According to the ministry of finance, the Central Government's spending reached VEB 112.5 billion the first quarter of 2011, while in the same period of 2010 the number reached VEB 85 billion, so in real terms, the government spending grew by 3.8%. The data indicates labor payments and mission benefits are becoming the heaviest areas. At **Ecoanalítica** we believe the Government started this year spending and is now in an expansion phase. This government spending growth was oriented toward normal outlays.

**Household Food Basket up 5.1% in June.** According to the Center for Documentation and Social Analysis of the Venezuelan Teacher's Federation (Cendas), the cost of the Household Food Basket (CAF) reached VEB 3,083 in June, for a 5.1% increase (VEB 148.8) compared to May of 2011. The y/y variation is 24.1%, which represents 42.5% of the minimum wage. Shortage was reported for six products this month: powdered milk, canned sardines, beef, margarine, oil and wheat flour; 10.5% of the products contained in the food basket.





**Products of the Household Food Basket.** The prices of eight food basket products were increased: fruit and vegetables, 14.3%; fats and oils, 3.6%; sugar and salt, 2.0%; meats and meat products, 1.8%; dairy products and eggs, 1.5%; fish and shellfish, 1.1%; roots, tubers and others, 0.5%; and cereals and byproducts, 0.03%. Three products maintained the same price of last month, black beans, green peas and lentils, VEB 76.6; sauce and mayonnaise, VEB 36.7 and coffee, VEB 28.4.

**Optimism for economic growth.** The minister of Planning and Finance, Jorge Giordani, said that the public debt bond issuing scheduled to raise the VEB 45 billion provided in the Special Law of Complementary Indebtedness, will boost the national economy to close this year in black numbers. *"This will prompt the expected growth of 2.0% or even more."*

**Underprivileged group reported falls in food consumption.** According to recent data presented by the National Institute of Statistics (INE), as of the end of the second quarter of last year, there appeared to be a drop in food consumption by underprivileged groups as compared to higher classes who were able to increase their food consumption.

**New supplementary appropriations authorized.** The National Assembly's Finance Commission authorized VEB 11.7 billion in supplementary appropriations for the nation's regions, labor payments, infrastructure and missions.

**Government's social contribution reaches US\$350 billion.** Over the last ten years, the National Government has devoted US\$350 billion for social development, said Jorge Giordani, minister of Planning and Finance. According to the clerk's statements, the National Administration is aiming towards its objectives based on inclusive social policies.

**Interest rates.** The lending rate for the second week in July was at 18.30%, increasing by 1.61 perceptual points compared to the previous week. Time deposits also were decreased by 0.14 perceptual points to reach 14.54%, while the passive has not submitted any variation significant since January 2010, placing well at 12.61%.

**International reserves.** International reserves increased 0.8% going from US\$29.32 billion during the fourth week in June to US\$29.57 billion during the first week in July. Compared to the same period last year, international reserves have increased by 1.2%.





**Monetary liquidity.** Monetary liquidity in the fourth week in June increased 3.2% compared to the previous week settling at VEB 335.4 billion. The M2 has creased 39.0% year-on-year.

**Sitme figures.** So far this year, US\$4.18 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.4 million a day, with an implicit exchange rate of 5,3 VEB/US\$. Last week the traded amount reached US\$175.8 million, US\$23.72 million more than last week when braided US\$152.11 million.

## Oil Tips

**Petrobono 2011 expired.** Last weekend was the expiration date of the Petrobono 2011, issued by Petroleos de Venezuela on June 25 of 2009 for a total of US\$3 billion and from which, according to sources from the financial sector, nearly US\$2.35 billion in securities were in the market. According to official sources, the Venezuelan Government has met all foreign debt payment commitments.

**Pdvsa's production to reach 2.8 million barrels in 2016.** Venezuela is the OPEC member with the least investment to increase its production capacities, according to a mid-year report issued by the International Energy Agency (IEA). By the end of 2011, Venezuela could reach 2.6 million barrels, states the IEA, but the outlook for the next 5 years projects a production of 2.8 million barrels per day.

**IEA raised local crude oil exploitation estimates.** The doubts about Pdvsa's productive and exporting activity have caused different secondary oil market sources to handle statistics that are quite different to the company's official numbers. The IEA announced a review of the last decade's statistics, which resulted in a decrease in Pdvsa's production volume in the period 2002-2004 and an increase for the period 2005-2011.

**US crude oil stock down.** US crude oil stock decreased for the fifth consecutive week, although less than expected, while gasoline reserves reported a surprising decrease, according to numbers released by the US Department of Energy.

**Venezuelan oil basket improves.** Oil prices keep resisting the market's volatility and are still over the US\$100 per barrel. The current Venezuelan oil basket price is



US\$103.76. The Ministry of Energy and Oil stated: *“the publication of favorable economic data in the United States and the decrease in US crude oil and gasoline stocks were the main factors that favored Venezuelan oil prices.”* So far this year, the Venezuelan oil basket has averaged nearly US\$100 per barrel. 2010’s average was US\$71.97 per barrel.

**Less jobs in US affect oil market.** US crude oil prices dropped by 2.5% as the economy created the least amount of jobs in nine months last June. *“The employment data has weighed mightily on oil prices. Employment trends are key for future demand, and this is now two months of poor data,”* said John Kilduff of Again Capital LLC.

**Odebrecht wants to invest in Zulia.** Odebrecht Oil & Gas will incur in oil activities in the recovery of mature wells in the Tierra Oeste field in the Zulia state, a 600 square-meter area. The field is currently producing 9,000 bl/d of light crude oil. They expect to increase the extraction to 17,000 barrels per day over a period of five years.

**Sanitary risk in Paraguana for oil contamination.** Residents of Las Piedras in the city of Punto Fijo, Paraguana Peninsula, claim that, for being neighbors of the Paraguana Refining Complex (CRP), they live subjected to sources of contamination which endanger their health. The cleaning of 25 thousand cubic meters of domestic waste and oil residues in the area has not been carried out yet.

**Private oil companies resist lack of investment.** Nearly 30,000 people dedicated to oil, gas, iron and petrochemical activities are seriously affected by Pdvsa’s considerable reduction of investment. Except for the 70 companies expropriated in the Zulia state, the remaining firms have not joined the nationalization line, but more than half are inoperative from their well maintenance activity.

**Physical oil price to reach US\$150 per barrel.** This is expected to occur this year in the United States, as a result of the violence in the north of Africa and the Middle East, despite the release of strategic crude oil reserves announced by the IEA last month. IEA members would release 60 million barrels of crude oil and refined products to cover the loss of supply from Libya and to reduce costs.

**Dominican Republic to pay debt with black beans.** The Venezuelan Ambassador in Dominican Republic, Alfredo Murga, announced that both governments had agreed for the Dominican Republic to pay its oil debt with black beans, chicken, construction materials, military uniforms and some other services. The debt is for US\$2.02 billion for 25 years and an interest rate of 1.0% per year. Out of the 155,000 oil barrels consumed daily by Dominican Republic, 125,000 come from Venezuela.



**International baskets.** At the time of closing the New York market on July 8<sup>t</sup>, WTI was selling at US\$96.42/bl, up from the US\$96.25 recorded the previous week. Brent, in turn, won 0.2% to US\$113.80/bl, as compared from the previous week, when it registered US\$113.58/bl.

**Local basket Price.** The Venezuelan basket Price fell last week, closing at US\$103.76/bl on Friday, July 8, won 0.1% from US\$103.62/bl recorded one week ago. Meanwhile, the yearly average of the Venezuelan oil basket was at US\$98.43/bl.

## Business Sector Tips

**Second round of registration for Great Housing Mission Venezuela.** The second “round” of registration for the Great Housing Mission Venezuela started June 9 in seven states with the activation of 259 points of registration, said the minister of Science and Intermediate Industries, Ricardo Menendez.

**Mortgage loans defined for families earning more than VEB 7,037.** The National Government defined the housing loan scheme for families who make more than 5 minimum wages (VEB 7,037), as they currently have no access to the banking system’s mandatory mortgage portfolio.

**Government tunes up distribution of construction supplies.** The minister of Science and Technology and Intermediate Industries, Ricardo Menendez, said they would celebrate agreements with local and foreign companies to guarantee the supply of construction materials.

**Real estate market operations decrease.** The government’s taking over of housing complexes, the reduced purchasing power and the loan restrictions and regulations have affected the Venezuelan real estate market. According to statements issued by the president of the Venezuelan Real Estate Chamber (CIV), Aquiles Martini, the sector is contracting, highlighting the fact that in the first half of 2011, real estate transactions decreased by 45%.

**Apartment prices through the roof.** The sellers market keeps affecting real estate operations, especially apartment prices which, during the first third of 2011 reported an average increase of 59%. Even though the deterioration of the people’s



purchasing power has limited property acquisition, a segment of society still makes efforts to buy a home, and the demand exceeds the number of available units.

**Car sales show small signs of improvement.** After months of declines and stagnation, the cumulative vehicle production shows some improvement. Between January and June of 2011, the automotive sector assembled 51,423 units, 0.5% more than in the same period of 2010, according to information provided by the Venezuelan Automotive Chamber (Cavenez). The data also shows a 4.2% variation compared to manufacturer's performances between May and June of this year.

... **However**, auto-part production remains still. The sector keeps expecting improvement. Since 2007, the continuous decline of car production has not stopped affecting national auto-part manufacturers.

**Currency allocation for food down in the first semester.** The Currency Administration Commission (Cadivi) authorized US\$2.06 billion for the food sector between January 1 and June 30 of 2011, 3.4% less than the amount authorized in 2010.

**Uncertainty over coffee importation increases.** The coffee processing industry is waiting for the Ministry of Nutrition to announce the imports that are necessary to maintain plants operative. The industry does not know the reason for the delay in foreign coffee purchases, and believes they should have been done at least two months ago, when they ran out of raw materials.

**Urgent review of corn flour price requested.** The Venezuelan Association of Corn Flour Industrials (Venmaiz) urged the government to review the sale price of this product. In an official release, the association states that starting August 15, white corn will go from "VEB 1,150 to VEB 1,500 per ton," a 30% increase in the price of this commodity.

**Dairy sector strongly affected.** The dairy industry is one of the sectors most affected by this problem. Roger Figueroa, president of the Venezuelan Chamber of Dairy Industries (Cavilac) thinks the solution is not in imports but in an update of dairy product prices and the strengthening of the productive apparatus, otherwise, the nation will face a new shortage period.

**Great delays in ports for exporters.** Venezuelan exporters need to wait up to 6 weeks with their merchandizes in port to ship them to foreign markets, said Francisco Mendoza, director of the Venezuelan Exporters Association (AVEX).





**Accusations of Government distorting Locti funds.** The business sector believes companies' compliance with the Organic Law of Science, Technology and Innovation (Locti) became yet another tax burden to satisfy the "*tax voracity*" of the Venezuelan Government after the reform made to the text by the National Assembly.

**Law of insurance activity generates more costs to the sector.** The Law of the Insurance Activity became effective in August of 2010, and insurance companies are currently in the stage of adaptation to this legal framework which generates a cost to the sector for VEB 1.19 billion.

**Inter-banking rate drops to historical low.** The market has regained absolute calm and the inter-banking rate, which measures the price at which banks lend money to each other, has reached less than 1.0% for the last eleven days, leaving volatility behind. This indicates that the few banks that used to turn to the market for funds have solved their liquidity problems and therefore the inter-bank rate has dropped to a historical low.

**Banks to have a new normative.** The new normative for the opening and closing of bank agencies, express windows and ATMs was published in *Official Gazette No. 39,708*. This provision states that financial entities shall notify the supervising entity 60 days in advance whether they will open, move or close offices or ATMs.

...**However**, they will not be authorized to make changes or open offices, branches or business centers if they have incurred in losses affecting their wealth during the latest three months.

**Telecommunications sector dividends reach US\$3 billion.** The amount of transnational telecommunications companies' backlogged dividends is close to US\$3 billion, according to Jose Maria De Viana, president of the Chamber of Telecommunications Service Companies (Casetel).

**Fedecamaras with new president.** Jorge Botti is the new president of Fedecamaras. Botti was elected to substitute Noel Alvarez for the period 2011-2013 in the organization's 67<sup>th</sup> annual assembly celebrated in Margarita.





## World Economy Tips

**Worst day in one month in Wall Street.** The US stock market reported its worst day in nearly a month last Monday July 11, due to concerns over the National budget and the increasing tension caused by the debt crisis in the Euro Zone. The Dow Jones' industrial average lost 151.44 points, or 1.2%, to close at 12,505.76 units. (unofficial). Standard & Poor's 500 dropped 24.31 points or 1.81% to reach 1,319.49, while the technological index Nasdaq Composite dropped by 57.19 points or 2.0% to reach 2,802.62.

**US Fed members divided.** Some Federal Reserve advisors are willing to offer more monetary stimulus to the US economy if the recovery can't reduce the unemployment rate and the inflation curbs as expected, said the latest assembly record. Others, on the contrary, disagreed with the measure and said that, if the latest inflation increases did not curb, the Fed would need to consider adjusting its policy earlier than expected. Fed members admitted that the recovery had been losing momentum as to their predictions in April, and said the recent deterioration of market conditions was a particular concern due to the impact it could have on consumers' spending.

**Studying repurchase of Greek debt.** Euro zone ministers of finance will discuss the possibility to repurchase the Greek debt or to exchange investments for long-term expiration assets, according to a source from the European Union. They suggest the French plan, by which private sector creditors renew their debts based on 70% of their Greek debts with 30-year bonds and other AAA assets is ruled out. Some member states say Greece will soon reach a debt of 160% of its Gross Domestic Product (GDP), and that something needs to be done soon to reduce the pressure on this nation.

**Brazilian stock market declines due to situation in Europe.** The Brazilian stock market fell to its lowest point in over a year on Monday July 11, due to concerns about the debt in Europe and the recovery of the global economy. The Bovespa index reported a 2.24% fall to reach 60,137 points, the lowest level since May of 2010. The amount for stock transactions reached 4.6 billion real, much lower than the 2011 average of 6.4 billion.

**China: fighting inflation is a priority.** The Chinese Prime Minister and the Governor of the People's Bank of China promised to fight to keep the high inflation from affecting the nation's economy by reinforcing the expectations of new boosts in



the interest rate. Prime Minister Wen Jiabao stated that the fight against inflation was still his Administration's number one priority, while the Governor of the People's Bank of China, Zhou Xiaochuan stated they should also grant significance to price stability. These comments took place after official data released last week showed the annual inflation reached a three-year high in June of 2011.

**Chinese International reserves set record in June.** China's foreign currency reserves reached a record US\$3.2 trillion at the end of June, threatening to intensify the nation's inflationary headache, as banking loans and the monetary mass expanded faster than expected. China's inflation reached a three-year high in June, reinforcing the notion that Beijing should maintain control over loans. The increasing Chinese reserves, far from being a sign of economic health, emphasize Beijing's dilemma of an excess of cash some analysts believe to be the main cause of China's inflationary problems.

**Japan maintains monetary policy.** The Bank of Japan maintained its monetary policy unchanged and revised its assessment of the economy encouraged by a jump in manufacture production and increasing signs of recovery since the devastating earthquake of March. *"Japan's economy is improving by reducing the restrictions to the supply chain caused by the earthquake,"* said the Bank of Japan.

**Paraguay to obtain loan from IADB.** Paraguay may access to a US\$50 million loan to develop Information Technologies and Communications (ITC), informed the director of the Inter-American Development Bank (IADB), Yun-Cheol Koo on July 11. He stated these funds were part of another US\$140 million from a Korean fund available at the aforementioned multilateral organization.

## Political Tips

**Doubts about the Alba leave regional partners in a threshold.** No one knows the reality of Venezuela like the president of Cuba, Raul Castro and, aware of the debilitation of President Hugo Chavez's process over the last few years, he has promoted an opening to other countries looking for key allies to satisfy his projects.

**... Both Castro and its Nicaraguan and Bolivian homologues,** Daniel Ortega and Evo Morales, respectively, and in less extent Ecuadorian Rafael Correa, through



ALBA, are well aware that Chavez's wellbeing is fundamental to continue receiving the millionaire subsidies, businesses and aids they have received.

**Uncertainty over agreements signed with President Chavez.** Nicaraguans are uncertain about President Chavez's health, which whom they have signed governmental commercial agreements without the participation of either nation's entrepreneurs. The president of the Chamber of Industry of Nicaragua (Cadin), Mario Amador, admits that the local business sector is uncertain about the effect Chavez's health might have on bilateral commercial relations.

**The message is "do not believe everything you see."** In an analysis of the political situation in Venezuela, the investment firm JP Morgan states President Chavez is clearly trying to portray an image of being in recovery and completely in charge of his government. That image would help him calm speculations about the internal struggle in his political movement and the short-term risks of institutional instability.

**Brazil offered medical support to treat Chavez.** The Brazilian Government offered support to President Hugo Chavez for his treatment against cancer and the possibility of being assisted in the same hospital in which Paraguayan President, Fernando Lugo, is being treated, said the newspaper *Folha de Sao Paulo*.

**Ratify executive and military team.** Chavez ratifies his executive and military team. Chavez announced: *"I hereby ratify the nation's High Command" (...)* *"Congratulations, continue with the same mystique" (...)* *"And they've also said Elias (Jaua) is ready, that the Government is divided, and talked about the night of the long knives."*

*... "I shouldn't say it because it's irrelevant, but it is in the case of the High Command, because some are due their retirement (...) I'm going to say it, as there are rumors, I hereby ratify Elias Jaua, Vice president of the Republic, and extend his service unlimitedly,"* said President Chavez, and then ratified the rest of the Cabinet.

**Create new ministry.** Chavez also signed the decree to create the Ministry of Youth and appointed newspaper Maripili Hernandez as head of this new instance.

**Chavez authorized more funds for the Great Housing Mission.** President Hugo Chavez authorized in a Council of Ministers VEB 14.6 billion in supplementary appropriations for the Great Housing Mission Venezuela. According to Chavez, this will speed up the construction process of over 70,000 housing units.





**Chavez announced salary increase for doctors.** During a Council of Ministers on July 7, President Chavez announced a 30% raise in the salary scale for doctors, and authorized the granting of an assistance premium for VEB 3.3 billion.

**Expropriations affect production.** According to a study carried out by Keller&Asociados, 52% of Venezuelans believe the Government's expropriation of farms paralyzes production and generates a need for imports. According to the study, only 36% believe the expropriations guarantee production while 12% had no opinion on the subject.

**Government hinders private sector.** The survey prepared by Keller&Asociados also revealed that 54% of Venezuelan citizens think the Government "creates obstacles" for private companies to produce food. 62% assure they prefer to be able to get "all the food products they want from different brands and at open prices" against 28% who prefer to "get few products of unknown brands at subsidized prices."

**Funds granted to states do not cover even 10% of the debt.** The Governor of Miranda, Henrique Capriles Radonski, reiterated one more time it wasn't truth that the money was being sent on time. In Capriles Radonski's opinion, "the funds announced the last few days represent less than 10% of the debt with the state, the oil price is US\$100 and the national budget was calculated at US\$40 (...) where do the other US\$60 go?"

**Congresswoman Machado will also run for president.** On Sunday, July 17, Congresswoman Maria Corina Machado (Independent – Miranda) will announce her candidacy to the primary presidential election to be celebrated by the Democratic Unity Table on February 12, 2012.

**New ambassador of Venezuela in Burkina Faso.** Jhony Fredy Balza Arismendi was appointed by the Ministry of the People's Power for Foreign Affairs as new extraordinary and concurrent plenipotentiary Ambassador of the Bolivarian Republic of Venezuela before the Government of Burkina Faso, as per *Official Gazette N° 39,710* of July 11, 2011.





## Legislative Tips

**National Assembly green lights new debt issuance.** On June 11, in an extraordinary meeting, the National Assembly's Finance Commission authorized the financial conditions of the securities to be issued within the framework of the Law of Complementary Indebtedness of 2011 for VEB 45 billion. The NA authorized conditions in foreign currency contemplating a fixed or variable coupon and yields of 5 to 30 years. Terms in bolivars provide the issuance of Vebonos or TIF with yields between 2013 and 2021.

**Neither abortion nor euthanasia to be included in the penal code.** According to Congresswoman Iris Valera (PSUV – Tachira), vice president of the Parliament's Internal Policy Commission, in the reform draft to the Penal Code, including 926 articles, *“we are planning to remove from the text the crimes considered as faults to be judged as peace justice cases. If they are faults, they should be judged as peace justice cases.”* They also plan to authorize an *“integral reform”* of the penal code.

**National Assembly to start debate over rational use of energy.** The president of the National Assembly's Energy and Oil Commission, Luis Acuna (Sucre/Psuv), reported that the first discussion of this draft would be held before the end of the first period of sessions, that is, before August 15. The objective of the text is *“to reduce the annual consumption of primary energy in absolute terms, the quantitative goal and time to meet it will be indicated.”*

**National Assembly debate over Sports Law.** The National Assembly began the debate over the draft to the Organic Law of Sports, Physical Activity and Physical Education, said the president of the Parliament's Social Development Permanent Commission, Oswaldo Vera. The report includes the draft's conclusions adopted unanimously by the representatives that integrate the commission.

**Is the Law of emoluments constitutional?** National Assembly Representative for the United Socialist Party of Venezuela (Psuv), Vargas State, Simon Escalona, said the Law of Emoluments applied to high-rank government officials for the Executive, Legislative, Electoral, Citizen and Judicial powers is completely constitutional. He also stated its scope of application included public universities, decentralized entities and services, public institutions, State companies and autonomous services, such as the Supreme Court of Justice.



**Representative Eekhout: the power of communication is in the people.** The second vice president of the National Assembly, Blanca Eekhout reported that the Law of Community and Alternative Media and Popular Communication would be introduced in the National Assembly no later than July 27 with the objective of establishing a legal framework for community and alternative media and popular communication to create, develop and build up the communicational process generated from within communities.

**National Assembly urged to debate over magistrates bonuses.** Representatives for the Democratic Unity Table will request the National Assembly to debate the alleged violation to the Law of Emoluments committed by Supreme Court of Justice magistrates as they granted themselves food-stamp bonuses for VEB 10,000. They will also turn to the Moral Power to propose an investigation for this “*serious violation*” of article 265 of the Constitution.

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