



## Weekly Report

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*Oil prices dropping:  
Is this the end of the  
increasing oil price trend?*

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During the first quarter 2012, the Venezuelan oil basket price has averaged US\$112/bl, up by 23.6% compared to the first quarter of 2011. However, the average price for oil during the second quarter 2012 was at US\$103.5/bl, down by 0.5% compared to the average oil price during the second quarter 2011. During the month of June, the average price of the Venezuelan oil basket was at US\$92.4/bl, down by 10.4% compared to the average price of the basket in June 2011 and down by 8.2% compared to the average price of all last year (US\$100.7/bl).

Before the extreme vulnerability of the Venezuelan economy with respect to any fluctuation in international oil prices, this recent drop in oil prices in international markets has Venezuelan economic agents asking; what's going to happen to oil prices? This Report will focus on our view and outlook regarding this issue.

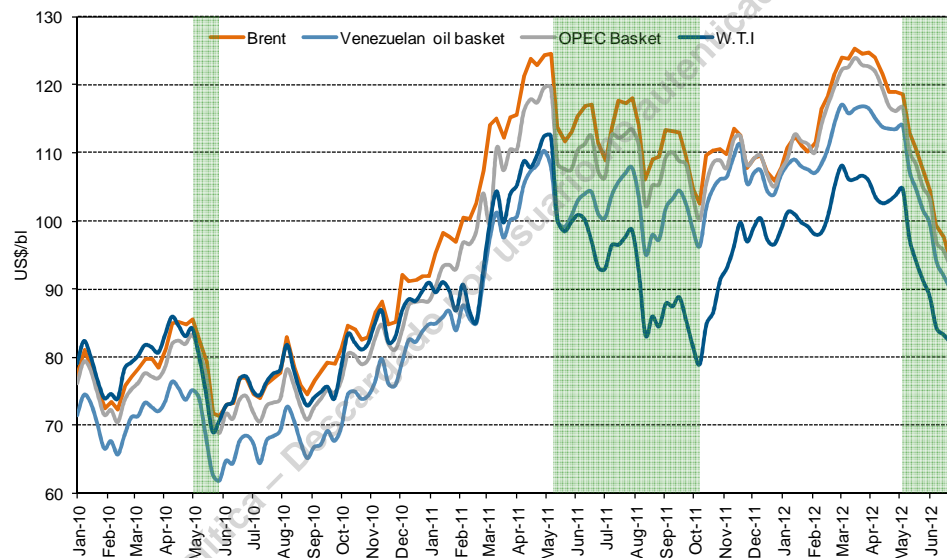
**Europe does it  
again**

Increased uncertainty regarding the economic situation in Europe and the lack of effectiveness with respect to the economic policies implemented by



its leaders in an attempt to solve the current economic crisis facing the Union has been playing havoc with international markets. During the last three years, the European Union has experienced three crisis situations: in May 2010; August 2011; and May 2012. What's worse is that this trend looks far from being over.

**Oil baskets prices**



Sources: Menpet and Ecoanalitica

In the midst of this vicious circle of reoccurring economic crisis situations, fundamental market principles and geopolitical factors, both which are key elements which affect international oil markets, have so far remained relatively steady. But most raw material analysts agree that if the situation in Europe doesn't clear up soon and stabilize, that pessimism and concern for the situation that is brewing will begin to affect the international oil market, which will be forced to adapt to these less favorable conditions.

**What is happening in the world economy?**

Taking into account how international oil prices are performing, global macroeconomic data, and the world crude oil demand, the picture is not clear and signals are mixed; but without a doubt, the economic crisis situation currently facing the European Union and the slowdown of the larger emergent economies are the main elements distress.





**Mixed signals from the developing countries**

After posting relatively positive first quarter 2012 economic figures, second quarter figures for the U.S. economy are not so rosy, with the economy showing signs of slowing down in manufacturing, retail sales, and private consumption. But, overall, the general outlook for the U.S. economy this year is one of improvement, with the economy doing better than in August 2011.

The European economy is clearly affected by the lack of effectiveness its measures have had with correcting the problems in Greece, Italy and Spain, with regard to debt, politics, and the economy and financing. Most analysts continue to stand behind, and consequently, will do whatever is necessary to save it and maintain the monetary union, but, there is no doubt that the market is getting more and more tired of politicians offering temporary band-aid solutions in order to meet expected confidence levels.

**Emerging markets also slowing its pace**

Another reason for concern, with respect to the oil market, is that economies of China, and the other emergent economies, are beginning to show general overall signs of slowing down. April and May 2012 figures in industrial production as well as in retail sales are both down, continuing to indicate that these economies are changing pace. But, with respect to China, it's important to keep in mind that this slowdown has been induced the Chinese authorities in an effort to control inflation and other distortions. Current Chinese economic policies aim to sustain economic growth. So, while the rest of the OECD countries are in situations which are forcing them to restrict macroeconomic stimuli (fiscal and monetary), in emergent economies these are tools which can be implemented, if the performance of their economies worsens.

At *Ecoanalítica*, we are convinced that the market needs a credible solution by the Europeans in order to eliminate pessimism. In our opinion, the main risk is with the Europe and not the emerging economies. But, solutions to Europe's problems don't seem to be very near; certainly not in the immediate future, so their macroeconomic performance will continue to affect international oil markets until their problems are solved.

**Demand: have roles reversed?**

With respect to how world demand for crude oil is behaving, we see that the roles seem to have reversed themselves. Crude oil demand for developed countries show signs of recovering, after having shown signs of dropping off less than a year ago; meanwhile crude oil consumption for emergent markets, which a year ago was spearheading demand, is showing signs of weakening.



After a winter period which was warmer than expected by OECD countries, preliminary figures for the United States for the months of April and May show an increase in the consumption of crude oil of 0.8% on a y/y basis. Preliminary data from Europe for the first quarter of the year shows crude oil consumption down by 3.3% on a y/y basis.

Then there is the Asia-Pacific region, where crude oil consumption continues to increase propelled by strong Japanese demand, which has been a key element in balancing world crude oil demand figures. Due to the loss of their nuclear energy platform due to the tsunami which hit the country last year, crude oil demand for the January to April 2012 period increased by 470 kb/d on a y/y basis. Given that their nuclear plants have yet to be activated, it's expected that their crude oil consumption will continue along these lines at least throughout the rest of the year.

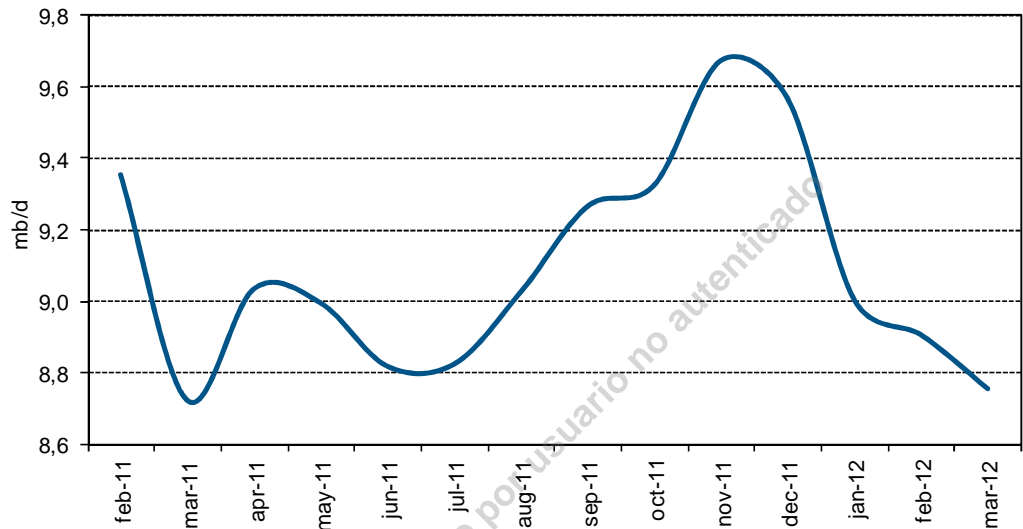
With respect to crude oil demand, the direct effect of a slowdown of the Chinese economy will be much more severe than a recession in Europe. It's important to remember that China is responsible for more than 50% of the increase in worldwide demand for crude oil for the last few years.

The latest figures coming out of China (May) show that crude oil demand continued to increase but by less than 100 kb/d settling at 9.4 mb/d. April figures show that crude oil consumption remained level and the consensus of most analyst expect that China's crude oil demand will increase by around 0.3 mb/d by the close of 2012, down by 31.9% compared to the 0.4 mb/d increase posted in 2011.





### China's crude oil consumption



Sources: JODI and Ecoanalítica

### The supply side: USA and the OPEC

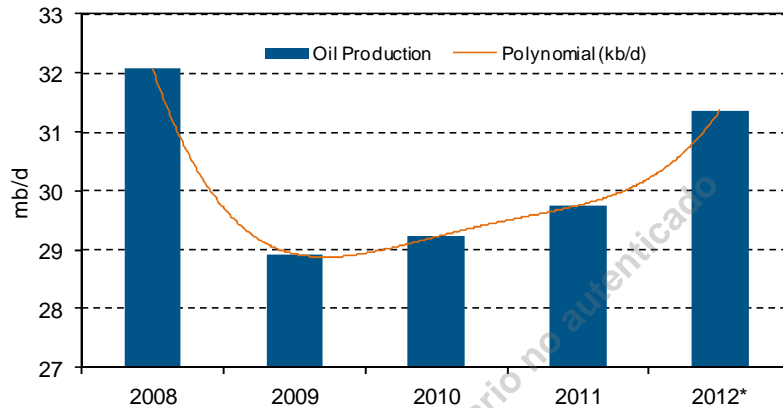
The supply by Non-OPEC countries has not been much to talk about lately, despite the U.S. increasing their production capacity, which has increased by almost 1 mb/d compared to last year. It's this increase in production by the U.S. that has led to the market barely noticing the drop in supply by the other Non-OPEC countries, but not enough to generate any significant increase in overall supply. Along these lines, it's expected that U.S. oil production will increase by 0.86 mb/d this year, while oil production in the other Non-OPEC countries is expected to drop by 0.20 mb/d.

Regarding OPEC, crude oil production has increased by 1.8 mb/d compared to the same period last year, to reach around 32 mb/d. This is the highest increase posted since 2004.





### OPEC oil production



\* Data until June 2012

Sources: OPEC and Ecoanalítica

At **Ecoanalítica**, we believe that this figure reflects two factors: (i) Libya once again beginning to pump oil (1.4 mb/d), and (ii) Saudi Arabia increasing oil production by 1.5 mb/d to fill the void left by Libya and balance the market since the second quarter 2011. But now, with Libya beginning to produce again, this surplus supply of oil continues in order to stabilize prices. This was essential in 2011 so that developed economies could promote growth.

Now, in 2012, the aforementioned surplus supply has allowed consumers to replenish their crude oil inventory which has led to an oil market that is more balanced than in 2011.

#### A tight market

Taking into account what we have just said and the consensus of oil analyst, at **Ecoanalítica**, we expect worldwide oil demand will reach 89.2 mb/d this year, which equals an increase of 0.90 mb/d compared to last year. With respect to oil supply, we expect the supply coming from Non-OPEC countries to increase by 0.63 mb/d, while the supply from OPEC countries will increase by 1.10 mb/d. This being the case, and based on fundamental market principles, the international oil market is adjusted which means that this allows for levels to be increased during the second semester, especially if emergent economies improve their performance.





Global Demand and Supply (consensus)	2010	2011	y/y % (mb/d)	2012	y/y % (mb/d)
<b>Demand</b>	<b>87,5</b>	<b>88,3</b>	<b>0,8</b>	<b>89,2</b>	<b>0,9</b>
OECD	46,2	45,6	-0,6	45,3	-0,3
Emerging countries	41,3	42,7	1,3	43,9	1,2
<b>Supply</b>	<b>81,7</b>	<b>82,1</b>	<b>0,4</b>	<b>83,9</b>	<b>1,0</b>
Non-OPEC	52,2	52,3	0,1	53,0	0,6
OPEC crude	29,4	29,8	0,3	30,9	0,4

Sources: IEA, EIA, OPEC and Ecoanalítica

### Oil producers need high prices

The important issue in terms of crude oil supply, facing rumors of worldwide demand and consequently oil prices dropping, focuses on the need oil producers have for capital in order to maintain and increase their oil production, thereby increasing incoming revenue for their countries. In OPEC's case, countries such as: Saudi Arabia, the United Arab Emirates, and Kuwait are earmarking a significant amount of their resources to social programs in order to avoid events such as those which occurred during the Arab spring. So, estimated oil prices required for National Budgets have increased by 25% since 2010, settling around US\$90-US\$100 per barrel.

According to studies carried out by a number of analyst, Non-OPEC countries require prices to stabilize around the same range, US\$100-US\$110 per barrel, in order to maintain oil production at current levels, explore, develop new technologies, and work towards increasing production. So it's clear that if oil producing countries see themselves facing a significant drop in oil prices, they will immediately cutback on oil production in order to force prices to remain at the levels they require

### And what about geopolitics?

Without meaning to say that events in Nigeria, Iraq, Yemen and Syria, should be taken lightly, the most volatile geopolitical focal point is still Iran. If Iran is faced with the full range of sanctions possible, in the worst case scenario, this could lead to cutbacks in oil supply of at least 1 mb/d. Given that idle oil production is virtually non-existent, losing 1 mb/d of OPEC's overall oil supply could easily affect oil prices pushing them to increase.

### The future: prices between \$90 and \$100 per barrel

At *Ecoanalítica*, we have evaluated a number of scenarios with respect to calculating future oil prices. On the one hand, we have a number of arguments that would back one predicting that oil prices will continue to increase, in other words, leading to an average Venezuelan oil basket price over US\$100/bl. Another set of arguments backs a scenario which has prices fluctuating in a rage between US\$90/bl and US\$100/bl, and yet another set of facts that point to prices falling below US\$90 per barrel but staying higher than US\$70 per barrel. These scenarios are grouped in the following table.



Possible Scenarios		
US\$100 or more	US\$100-US\$90	US\$90 or less
<ul style="list-style-type: none"> <li>• Break even</li> <li>• Opec oversupply</li> <li>• Iran</li> <li>• Need to accumulate inventories</li> </ul>	<ul style="list-style-type: none"> <li>• Breakeven</li> <li>• More balanced market (more Opec supply)</li> <li>• Use of inventories</li> <li>• Recovery in merging economies</li> <li>• Stagnant Non-Opec supply</li> <li>• Increase of ODCE demand</li> </ul>	<ul style="list-style-type: none"> <li>• Fail in political economics</li> <li>• Depreciation on merging economies exchange rate.</li> <li>• Deceleration in merging economies</li> </ul>

Source: Ecoanalítica

As you can see, most of the arguments point to oil prices being in a range between US\$90-US\$100 per barrel. Consequently, our base scenario points to the Venezuelan oil basket closing out the year at US\$102.1/bl, down by 5.3% compared to the average price so far this year.

### The new golden rule in Venezuela

For 2013, at **Ecoanalítica**, we have constructed two macroeconomic scenarios that are a bit more pessimistic, given how vulnerable our economy is with respect to international oil market price adjustments.

Main Macroeconomic Variables	2012E	2013F		
		Base	Conservative	Pesimistic
Venezuelan Oil Basket Price (US\$/bl)	102,7	103,9	91,9	81,7
Total GDP (y/y %)	5,8	-2,8	-4,5	-5,7
Oil GDP (y/y %)	5,7	2,2	1,1	1,1
Non-oil GDP (y/y %)	7,1	-3,3	-5,1	-6,4
CPI- Caracas (y/y %)	25,8	33,9	40,2	45,7
NCPI (y/y %)	25,1	32,9	39,3	44,8
Official VEB/US\$ exchange rate (end of year)	4,30	6,30	7,00	7,50
Lending Rate (% end of year)	14,7	15,1	14,3	13,5
Deposit Rate (% end of year)	13,1	13,1	12,3	11,5
Monetary Liquidity (VEB MMM)	683,8	859,3	862,4	867,8
International Reserves (US\$ MMM)	28,0	34,4	30,7	27,0
Financial Deficit (%GDP)	-8,9	-5,4	-5,1	-5,8
Unemployment (%) (annual average)	7,5	9,0	9,3	9,5
Poverty (% population)	30,9	35,0	36,0	36,7
Extreme Poverty (% population)	8,2	11,6	12,1	12,5

Source: Ecoanalítica

Looking at the results of these scenarios, it's clear that the current state of the Venezuelan economy is not sustainable and adjustments are imminent. We have gotten used to being vulnerable and being dependent.



Our clients have to keep this new premise in mind, as if it were a new commandment, a new dogma, or a new golden rule for Venezuela:

If international oil prices are over US\$100/bl, then there is a ray of hope and the economy is holding on by a thread. If the price of oil is between US\$90 and US\$100 per barrel, the economy is pretty much stuck in the mud, not going anywhere; the country full of debt, and all social indicators dropping. And, if oil prices drop below US\$90/bl, the economy is pretty much looking at a recession.

**Keep on fighting**

However and even though it might sound cliché, neither the world nor Venezuela will end in 2013; and uncertainties will continue to determine our incentives and our expectations. No matter how experts we can be, today more than ever, the future looks unpredictable. In our opinion, a political change would provide Venezuela with a handful of opportunities; but if a *chavista* administration continues, we don't believe that the country is going to be left empty.

Our recommendation, above all, with only three months to go before October 7 elections, is to be prepared. It's important to get covered, diversify risk, growth in market intelligence to increase sales and sensibly manage inventories. To hesitant is to lose, and it's clear that the worst that could be happening is happening.





## Economic Tips

**Expenditure of the Central government increases 24% during the first semester.** According to data from the Despacho de las Finanzas Públicas (Bureau of Public Finances), the Central Government spent 24% more (in real terms) than in the first semester of 2012. As expected, the presidential elections have been a catalyst in this matter, but the growth of the State, which has taken over a bigger number of enterprises has also been an important factor. Unlike the past years, private consumption has not been strongly influenced by the fiscal expansion, which has been mainly destined for investment expenditures.

**Food basket increased by 1.7% in May.** According to figures released by the National Statistics Institute (INE), the value of the food basket reached VEB 1,811.89 in May, up 1.7% from April and up 21.9% (VEB 325.3) compared to May 2011.

**Among the food basket items that recorded higher price increases** we find guava (16.1%), melons 13.6%), carrots (8.9%), tomatoes (8.0%), rice (7.6%), %, oatmeal (7.12%) and pepper (5.21%). On the other hand, the most significant price declines were chicken eggs (12.58%), mango (12.33%), pineapple (4.49%) and onions (3.58%)..

**SENIAT collected VEB 14.000 million during the first semester** according to president Chávez. *“Some years ago, SENIAT wouldn’t charge taxes to the rich; only public employees, the middle class, and small and middle merchants paid them, now we have managed to increase tax collection”*, said the Head of State. He also commented that the resourced will be transferred to the regional powers of mayors and governors and the People’s Power, which receives a direct percentage destined to “communal enterprises”.

**Foreign Investment?** According to a report released by the UN Conference on Trade and Development (UNCTAD), Venezuela received in 2011 foreign investment worth US\$5.3 billion, including 56% from non-distributed profits by transnational firms, which haven’t been able to repatriate their dividends, because they haven’t received authorization by Cadivi. At **Ecoanalítica** we believe that this classification is valid for nations like Brazil, Colombia or Chile; however, it is little suitable for the Venezuelan case, because “investment flow” isn’t the result of stimuli to maintain or attract capitals, but a simple bureaucratic obstacle.





**Sudden increase in reserves.** Central Bank's international reserves have grown 12% in four days, from US\$25.23 billion up to US\$ 28.39 billion. Roughly 70% of foreign currency corresponds to gold bars; therefore, recent days' increase has translated in more foreign currency in cash, which would allow BCV to cover the increase in imports so as to avoid product shortages before the elections or transfer a higher amount of resources to Fonden.

**Interest rates.** The lending rate for the fifth week of June was at 16.6%, decreasing by 1.5 percentage points compared to the previous week. The time deposit rate remained since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves increased 0.5% going from US\$28,391 million during the fifth week of June to US\$28.245 million during the first week of July. Compared to the same period last year, international reserves have decreased by 6.3%.

**Monetary liquidity.** Monetary liquidity increased 0.6% in the first week of July compared to the previous week, settling at VEB 520.088 million. The M2 has increased 56.5% in relation with the same period last year.

**Sitme figures.** So far this year, US\$5,242.3 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43.0 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1,297 million (31.5%) over the same period of 2011, when US\$4,120 million were negotiated. Lastly, during the fourth week of June the amount traded reached US\$124.8 million, traded US\$79.1 million more than last week when US\$222 million were traded, with a daily average of US\$44.4 million.

## Oil Tips

**Only 2.3% goes to Mercosur.** Even though the "Oil Sowing Plan" called for diversifying crude oil exports, 7 years later, export volume to the 4 Latin American countries member of the Common Market of the South (Argentina, Brazil, Paraguay and Uruguay) reaches 57,000 barrels/day (kb/d), just 2.3% of PDVSA's total export volume at end-2011; however, up to 90% (about 52 kb/d) are shipped under long-



term payment conditions or are exchanged with agricultural products, thanks to the Energy Treaty of Caracas.

**Iran's maneuvers drive prices up.** Last week, news from Teheran fueled concerns about Ormuz Strait. Iran's Parliament signed a draft law banning transit through the Strait, through which 35% of global maritime oil shipments pass. This development provoked an increase in Brent price; however, analysts state that this increase could be ephemeral, because these threats aren't credible.

**Brent rises but WTI resists.** Although in London Brent reacted and could resume the US\$100/bl. level, in New York "*weak data from the service and retail sector*" in the U.S. and "dollar's strength counteracted the drop in crude oil inventories and economic stimulus measures taken by central banks in China and Europe;" therefore, WTI lost ground once again and remains below US\$90/bl.

**Strike in Norway drives Brent up.** Given the imminent lockout in oil activities, which threatens with paralyzing Norway's oil activities, Brent futures were traded again over US\$100 on the week. Negotiations between workers and their employers on wages and pensions failed for the third time and Norway is on the brink of paralyzing crude oil lifting for the first time in 25 years.

**Impasse.** Dialogue between PDVSA representatives and oil workers was suspended because no agreement on the payment of labor benefits to relatives of deceased workers was reached. Eudis Glrot, union representative, explained that even though 80% of the clauses have been approved, medullar clauses of the collective contract, including "wages, payment of shifts, food or labor benefits," haven't been discussed, and that representatives of the State-owned oil company haven't presented wage adjustment proposals yet.

**Paraguay is searching for new suppliers.** Venezuela's decision to suspend fuel shipments to Paraguay resulted in Paraguay calling for international bidding process to cover domestic consumption with other suppliers. Relations between PDVSA and Petropar date back to 2004 when Venezuela supplied 25,000 cubic meters of gas oil per month (30% of market consumption). Currently, Petropar's debt to PDVSA amounts to US\$265 million and the payment in installments should be made between late-July 2012 and December 2013.

**"Stop! We need that oil here!"** These were the words pronounced by Uruguay's José Mujica in response to criticisms expressed by a Uruguayan diplomat due to Venezuela's entry to Mercosur through the back door. President Mujica said that "*we admitted Venezuela, because now we are committed to Venezuelan oil.*" According



to official data, Uruguay imports the total amount of oil it consumes and Venezuela is currently its main supplier, with 65% of the total.

**Plan to implement fuel chip in Zulia State moves forward.** In a press note, PDVSA points out that “*after the success of the Fuel Automation Plan in Táchira State (...), the General Direction of Domestic Markets of the Ministry of Petroleum and Mining and PDVSA decided to implement the same anti-smuggling plan in Zulia State.*” The plan calls for automating 90 gas stations in Maracaibo, seven of which are full operating thanks to a technology that consists of reading an electronic code or TAG.

**France’s Total will increase gas production in Guárico State.** France’s Total will increase production from Yucal Placer gas field in Venezuela this year, as part of a plan to triple its production by late-2014. This plan, in which Spain’s Repsol and Venezuela’s Inepetrol and Otepi are participating, was launched in 2004. Works of the new development phase of the gas field will begin this year to take production up to 55,000 oil barrels by end-2014, Total informed in a press note.

**Geopolitical pacts damage the country.** Analysts believe that energy agreements, such as Petrocaribe, are damaging for Venezuela, in particular due to the excessively long terms, which, in their opinion, should be shorten from 25 years to 5 years. Furthermore, PDVSA has been forced to buy roughly 7.6 kb to meet its commitments to these countries. According to official figures, Petrocaribe’s bill has meant an investment of US\$14.38 billion. For oil expert Rafael Quiroz Serrano, oil is being used as the “*main leverage to reach the long time desired regional integration.*”

**International baskets.** At the time of foreclosure in New York, WTI was traded on July 6 at US\$86.3/bl, which shows an increase of 8.8% compared to US\$79.3/bl recorded the previous week. Meanwhile, Brent rose by 7.9% to reach US\$ 99.3/bl compared to the previous week, when it reached US\$91.9/bl.

**Local basket price.** The Venezuelan oil basket price rose last week to close at US\$92.9/bl on July 6, resulting in an increase of 7.8% compared to US\$86.2/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 107.2/bl.





## Business Sector Tips

**Increased use of e-commerce.** According to a report released by América Economía, Venezuela is in the sixth place among the Latin American economies with the most intense use and growth of e-commerce, with a total of US\$1.4 billion in 2011. In the region, growth reached 42.8% in 2011, driven by greater confidence by consumers, a higher use of social platforms and the increase in the use of electronic payment means such as credit cards. In Venezuela, we could add the fact that credit cards are the less complicated means to obtain dollars at the official exchange rate.

**Loan portfolio grew 27% in May.** According to last figures released by the Bank Superintendent's Office (Sudeban) in May, gross credit portfolio of commercial and universal banks grew 55% in nominal terms, for the highest increase since February 2008, and in real terms (excluding inflation), it meant a year-to-year increase of 27%, up almost 23 percentage points (pp) from real increase experienced in May 2011 (3.4%).

**More credits for the manufacturing sector.** In relation to the structure of the banks' loan portfolio in terms of economic destination, all sectors showed year-to-year increases in real terms, led by placements earmarked for the manufacturing sector (+46.4%), followed by commercial credits, which posted the highest increase since October 2007 (+39.3%), agricultural credits (+33.9%), micro credits (+30.6%), tourism (+22.6%), mortgages (+8.4%) and finally consumption credits (+5.4%).

**Commercial credits' share increases.** Concerning share in loan portfolio, commercial loans grew a little more than 3.0 pp, from 34.4% in May 2011 to 37.7% in the same month 2012, followed by the 1.3 pp increase in credits for manufacturing sector, reaching 10.0% of total portfolio. Consumption credits, in turn, recorded a marked drop, from 20.1% in May 2011 to 16.7% in May 2012, for the lowest share since January 2006. Similarly, the share of mortgages and credits for tourism sector decreased to 12.6% and 1.7%, respectively.

**Delinquency drops.** Concerning portfolio quality, improvements were reported in all credit destinations. Therefore, delinquency indices in agricultural and micro credit portfolios (Due Portfolio + Portfolio in Litigation / Total Gross Portfolio) registered an annual decline of 0.4 pp, reaching 2.2% and 2.1%, respectively, followed by 1 pp, 0.6 pp and 0.5 pp drops in delinquency in portfolios earmarked for mortgage, manufacturing and consumption sectors to levels of 1.9%, 0.7% and 1%, respectively.



This improvement in bank's portfolios that are in dire straits is attributable to the higher increase in local economic activity.

**Special offers are here, but they don't impact sales.** Although special offers typical of season end came in July, sales' behavior hasn't been extraordinary. During the first four months of 2012, Datanálisis reported an expansion of 5.6% in consumption. Notwithstanding, this figure is lower than analysts' estimates that expected a higher increase, due to monetary expansion verified since late-2011. Datanálisis estimates that consumption will grow 6.5% this year.

**They got their money back.** Rodolfo Marco Torres, president of Banco de Venezuela and Minister for Public Banks, assured that the country has already recovered investments made 3 years ago to buy the bank, because Banco de Venezuela has generated dividends totaling VEB 5.8 billion, higher than VEB 2.6 billion invested for the purchase in 2009. Torres added that credit portfolio grew 261% over 3 years and that a monthly record high in terms of dividends was reached in June this year, with VEB 551 million.

**Dividends are for the administration.** Rodolfo Marco Torres also announced that in the first six months of 2012, Banco de Venezuela's dividends amounted to VEB 2.3 billion. Torres stated that these funds have been already earmarked for the Socialist Efficiency Fund, which is one of the mechanisms used by the administration to finance additional spending and that also received dividends from the rest of the state-owned companies.

**Fewer vehicles in the second half of the year.** Balance in the first half of 2012 for automotive industry is favorable with a growth in production of 12.9% with respect to the first six months of 2011. However, the sector recognizes that this pace will hardly be maintained throughout the second half of 2012 due to delays in Cadivi, which limited imports of inputs to be used over upcoming months. Therefore, everything will depend on how each assembly plant to manage its inventories, because virtually since early-year, several companies had to develop strategies to "dose" assembly material, in an attempt to delay closing plants as much as possible.

**All you need is "will".** Vice-president Elías Jaus considers that Venezuela's entry into Mercosur will be a challenge for the private sector and the implementation of production policies that satisfy national demand and allow the penetration of new markets. He denied that Venezuela's adhesion into the regional bloc will only be useful to import raw materials and finished products from the other member countries. *"There are production policies regarding credit portfolios and stimulus/development of national infrastructure, the only thing missing is the will of*



Venezuelan industrial and agricultural producers to convert Venezuela into an exporting country”, he added.

**More threats than opportunities in Mercosur.** The local automotive industry is concerned about bigger South American markets (Argentina and Brazil), because it feels handicapped vis-à-vis the size of its potential competitors: in 2011, Brazilian industry produced 2.8 million of autos, whereas Argentina assembled more than 828,000 units; Venezuela’s production hardly exceeded 100,000 units.

**What will prevail? Mercosur’s or Venezuela’s rules?** Guidelines that will govern common automotive policy haven’t been defined yet. There are clear differences in the current Venezuelan rule that provides for that 50% of components included in vehicles assembled in the country should be manufactured locally, whereas according to Argentina-Brazil bilateral agreement, this percentage is 35%.

**Switzerland and Finland want their money.** Last year, both administrations send letters to President Chávez requesting him to intervene so as to streamline payments of the debt of the Venezuelan administration to Pöyry Infra for the construction of Maracaibo and Valencia metros. Outstanding invoices amounted to US\$45.4 million and they should be paid by the now extinct Ministry of Transportation and Communications. The head of the new Ministry of Land Transportation, General Juan García Toussaint, ordered to expedite payments of the debts owed by these transportation systems, but they have been repaid only partially.

**Supermarkets outran Mercal in terms of food sales.** According to the last follow-up survey of food consumption released by the National Statistics Institute, most households prefer to buy their food in supermarkets, private outlets and some public outlets, thus leaving Mercal outlet chain as an option that lost consumers. Administration’s officials claim that this has to do with the higher purchasing power among the population. Other analysts state that Mercal is a limited program and its product inventory is scarce in comparison to the size of the economy and demand by the population.

**Tourism grows 37.4% in Venezuela.** Alejandro Fleming, Minister for Tourism, informed that receptive tourism grew 37.4% in January-June 2012, in comparison to the same period in 2011. Furthermore, Fleming stated that for the year-to-date, Venezuela has received 414,274 international tourists, 112,713 visitors more in relation to the same period in 2011. Fleming explained that tourists arrived in Venezuela from Colombia, Brazil, the U.S., Argentina, Spain, Italy, Germany, the UK, and France, among others.





**Sidor claims that iron bar production has grown.** Néstor Astudillo, Sidor's steel promotion manager, stated that plant operation and iron bar production has been growing over the past 3 years. Concerning iron bars, Astudillo pointed out that production targets have been met and that supply of this material has been guaranteed to complete construction works undertaken by the State. Astudillo explained that 90% of steel production at Sidor, as well as iron bars, are earmarked for the *Gran Misión Vivienda Venezuela*.

**Fedecámaras: Mercosur, a "headache"?** Francisco Martínez, Fedecámaras' president, assured that conditions don't exist for Venezuelan businesses to compete in Mercosur, because public and private sectors accompany each other on those markets. Martínez believes that according to local businesses' conditions, Venezuela's accession to Mercosur more than "*excellent news*" could probably become "*a big headache*" for Venezuelan companies.

**Fedeindustria, in turn, does see opportunities to compete in Mercosur.** Miguel Pérez Abad, president of Fedeindustria, said that he's satisfied for the accession of Venezuela as a full member of Mercosur. Pérez Abad estimates that to "*face Mercosur's challenge*," between 1,200 and 1,500 small and medium-sized companies with quality and productivity elements might compete within Mercosur. Likewise, Pérez dismissed opinions that criticize Venezuela's joining Mercosur: "*many of those opinions come from the same individuals that supported Venezuelan accession to the Free Trade Agreement of the Americas.*"

**Cheese imports surged 52%.** According to INE, cheese imports jumped 52% over the first fourth months of the year with respect to the same period in 2011. The surge is attributable rather to higher prices than to an increase in the number of tons that arrived in the country. The main supplier has been Uruguay. Given to the fact that Venezuelan markets have been relatively flooded with Uruguayan cheese, the National Association of Cheese Producers (Aniquesos) reiterated their request to revise prices of locally produced cheese, due to the nil profits they obtain in spite of the price increase allowed in December 2011.

## World Economy Tips

**IMF to cut global growth forecast.** International Monetary Fund (IMF) chief Christine Lagarde has said that the organization's next forecast for global economic growth would be down from the 3.5% predicted in April. She also hailed EU leaders'



efforts to solve euro zone crisis and said "*significant steps*" have been taken, but further reforms and strong implementation are needed.

**Central Banks face the crisis.** The European Central Bank (ECB) has reduced its key interest rate from 1% to 0.75%, a record low for the euro zone. The move parallels that one adopted by the Bank of China, which cut its interest rates for the second time in two months. The Bank of England, in turn, announced it will inject US\$78.0 billion to the economy over the next four months. In the three cases, central banks have taken their actions on the grounds of the weak economic growth.

**Amid the crisis, Germany surprises.** Even though problems persist in the EU and many fear that Germany could be dragged into the spiral, German industrial production posted an unexpected increase of 1.6% in May, mainly driven by higher production of consumption goods and in spite of the decline in the production of capital goods (this area has traditionally led the sector). The good news could not be repeated, considering that production reaction has been accompanied with higher foreign demand instead higher domestic demand, which would have rendered it sustainable.

**USA: automobile sector slightly recovers.** Sales of light trucks gained 2.7% in June, whereas car sales grew 1.5%. In both cases, sales of locally produced cars show a recovering trend, with increases of 3.7% in the case of trucks and 5.6% for cars, and a decreasing trend in car imports, with a 2.0% drop in truck sales and 6.8% in car sales, due to the lower dollar value, which has made imported goods to be relatively more expensive than locally produced goods.

**Labor market figures: more uncertainty in the US.** Only 80,000 new jobs were added in June (third month in a row with weak growth), for the quarter with the least employment growth since the labor market began to recover in 2011. Figures released by the Department of Labor reveal recovery fragility and put higher pressure on a possible intervention by the Federal Reserve.

**Trade exchange with Latin America: a means to overcome unemployment.** Mitt Romney, Republican competitor of Barack Obama in the next presidential elections, says that unemployment numbers in the U.S. are "*unacceptable*" and adds that to boost job creation, it's necessary, among other things, to intensify trade exchange with Latin America. Romney proposes to lower unemployment to 6% over four years and continue to reduce it in the future. For this purpose, he proposes "*opening foreign markets*" and increasing trade with Latin America, which would entail big opportunities for the US manufacturing sector.





**Quid pro quo.** In Greece, parties supporting the administration approved the political program of the new administration, which includes a request to troika for an extension of at least two years of the fiscal adjustment period, so that fiscal targets are met without having to implement new cuts. Meanwhile, EU leaders assure that Greece won't receive the next trench of financial assistance until the euro zone has verified that the reform and adjustment program is back on the right track.

**Spain to announce new measures to reduce deficit.** After one week of tensions on markets and uncertainty about Spain's economic recovery, President Mariano Rajoy announced this Saturday that his government will soon take "important" measures intended to reduce public deficit. "*We'll take measures concerning structural reforms, some very important, some in July and other after July,*" Rajoy explained. Mariano Rajoy is expected to talk to the Congress of Deputies on the European bailout of Spanish Banks announced last month.

**Spain's government announces VAT increase.** Cristóbal Montoro, Spain's Minister of Finance, said that the administration is considering a tax increase for the indirect sector, which clearly hints to a possible VAT increase in that country. According to Montoro, in Spain "*people pay less in comparison with other countries.*" Montoro makes this statement after EU leaders requested Spain last week to broaden VAT tax basis due to the low collection portion from that tax and a "*tax system consistent with efforts to heal budget.*"

**New exchange restrictions in Argentina.** The Central Bank of Argentina officially prohibited the purchase of dollars for personal savings purposes. The announcement was made past Thursday through resolution A 5318 and will affect time deposits in foreign currency. Authorizations to buy dollars for tourism, for the purchase of real estate properties, imports, purchase of rolling material, airplanes, ships or scientific equipment will remain in force.

## Political Tips

**201 years later, we don't feel independent.** Presidential candidate Henrique Capriles said during a visit in Guasdalito (Apure State) that Venezuelans "*don't feel independent; we live in fear.*" For Capriles, independence should mean being able to move throughout the country and feel that "*we Venezuelans are in command,*" not irregular groups whose presence is a problem that has been mostly affecting life in



border towns and cities and that up until now hasn't been dealt with seriously enough by the administration.

**World far left with President Chávez.** During the 18<sup>th</sup> Forum of Sao Paulo, 120 international left-wing parties and 400 international delegates gathered in Caracas. According to the base document that guided discussions at the forum, left-wing parties expressed their support for Hugo Chávez' reelection. "*For the Venezuelan and continental left, Commander Hugo Chávez' reelection in next October 7 elections is fundamental,*" the document states.

**Opposition growth is "normal."** At a press conference at Alba Hotel, Venezuelan president/presidential candidate Hugo Chávez stated that divisions existing in Venezuela were provoked by *El Caracazo*, adding that differences are basically economic. When asked about opposition growth in recent election processes, Chávez said that "*the increase in opposition votes is natural,*" but noted that "*if opposition has grown, we have grown further.*" Chávez ruled out the possibility of debating with Henrique Capriles, opposition candidate.

**Rodríguez: the opposition is desperate** Jorge Rodríguez, chief of election campaign of Comando Carabobo, believes that the parade and meeting held by President Hugo Chávez to mark the beginning of the election campaign provoked "*desperation and unease in the Venezuelan right,*" which, in his opinion, is expressed in the opposition's efforts to "*create opinion trends*" to make President Chávez appear "*far from his people.*"

**Government followers and opposition are looking for funds.** As accusations for the use of public funds by Chávez or foreign financing for Capriles continue, both PSUV and MUD have been financing their campaigns through unusual activities. PSUV has relied on contributions by its members ("one day of wage for the revolution") and raffling cars, home appliances or cell phones "made by Socialism." The opposition Comando Venezuela, in turn, expects to collect funds by raffling buses, taxis, motorbikes, computers and even "several heads of cattle."

**Chávez: it's just a circumstance.** President Chávez assured that his administration isn't concerned about oil prices and, even though important drops in oil prices have taken place recently, he assures they are a result of current circumstances. "*Oil prices are going to stabilize around \$100, we are going through a special circumstance,*" Chávez stated at the end of a press conference. According to President Chávez' reasoning, global oil reserves continue to drop, whereas demand will continue growing, therefore making oil prices maintain.





**Election pact is a legal way to prevent abuses.** Presidential candidate Henrique Capriles pointed out that the election pact proposed last week to candidate Chávez is provided for in the Constitution. According to Capriles “*what we are asking for is an agreement to respect election ad regulations,*” so as free-of-charge adds aren’t used for electoral purposes, something that has been criticized by opposition sectors.

**The administration “doesn’t care about Venezuelans’ lives.”** According to Dinorah Figuera, deputy to the National Assembly, “*the administration has broken the hearts of many people that have lost relatives to violence.*” In Figuera’s opinion, the national government “doesn’t care about Venezuelans’ lives,” because in 14 years of government of President Chávez, 150 thousand Venezuelans have lost their lives to violence and “*effective measures haven’t been applied to put an end to lack of security, violence and impunity.*”

**Jaua defends nationalization policy.** Vice-president Elías Jaua, at an event to celebrate the third anniversary of Banco de Venezuela’s nationalization, pointed out that the administration’s nationalization policy is “fair, essential and necessary” and sustained that some nationalized companies have failed because “capitalism sent them to bankruptcy.” Jaua added that “great missions cannot be sustained if the State isn’t able to control profits of big strategic businesses.”

## Legislative Tips

**More indebtedness.** In the Ministerial Council of Tuesday, July 10 the Executive approved to request the National Assembly the approval of a Special Law of Complementary Indebtedness for 2012. This new legislation would allow the government to pay the retirement pensions of the Misión en Amor Mayor and the working liabilities of the workers of the public sector by increasing national public debt. Vice-president Elias Jaua informed that the complementary indebtedness will be around VEB 30.000 million.

**AN resumes activities.** Past Tuesday, July 10<sup>th</sup>, after July 5<sup>th</sup>’s special session, the AN hold a regular meeting to discuss “new supplementary appropriations earmarked for the Vice-President Office, as well as for ministries of Defense, Labor and Land Transportation; the report presented by the Permanent Committee on Foreign Policy, Sovereignty and Integration, which authorizes the appointment of Rodrigo Oswaldo Chávez Samudio as Ambassador to Germany, was also discussed.

**New commission to evaluate the Disarmament Law drafts.** The governing board of the National Assembly approved the creation of a special commission, which shall



have the task of unifying the law drafts currently being developed both in the Legislative and Executive Powers and thus permit the discussion of one single law project. This commission will be chaired by the deputy Diosdado Cabello and shall be composed by William Fariñas, Elvis Amoroso and two other deputies assigned by the opposition.

**No discussion on the “gasoline chip” in the National Assembly.** In the ordinary session of Tuesday, July 10 the deputy of Zulia, Nora Bracho, requested to discuss the problems that the new “gasoline chip” is currently generating on the gasoline supply of the state. When voted on the debate, the chavista majority of the parliament didn’t allow the proposal to pass. Bracho insisted that the system “doesn’t diminish” the smuggling of gasoline out of Zulia, *“on the contrary, it shows the incompetence of the National Government on border policies that prevent such crimes”*.

**The State assumed regional commitment to fight coups.** With Venezuela’s accession to Mercosur, the National Assembly (AN) passed the Law approving the Montevideo Protocol on Democratic Commitment in Mercosur (Ushuala II). The protocol establishes that in the event of a coup d’état, the other member States may decide the total or partial closure of land borders and suspend or limit trade, airborne and maritime traffic, communications and the provision of energy, services and supplies.

**AN Board gave opposition deputies the cold shoulder.** Since late-March, MUD’s representatives haven’t sustained “formal” contacts with the AN’s red leadership. Fernando Soto Rojas’ exit from the AN presidency was regretted by opposition representatives. *“You could talk with Soto Rojas; but communication with Cabello doesn’t exist.”* The lack of dialogue affects the work in the Chamber, because if there were coordination, plenary sessions could be more productive.

**Consultations on Law against Torture begin.** Within the framework of public consultations on the Law against Torture, Elvis Amoroso, chairman of the Permanent Committee on Interior Policy, announced that the Committee will meet at Isla del Burro, the largest of the 22 islands in the Lake of Valencia, where, during José Vicente Gómez’ dictatorship was the seat of a prison where many people were tortured. At present, the committee is meeting at San Carlos barracks in Caracas.

**New Superintendent on Home Rent.** Past Tuesday, July 10<sup>th</sup>, the appointment of Ana Marina Rodríguez as new National Superintendent for Home Rent was published. One of the main measures that the new Superintendent could take is the creation of regional offices to improve attention and expedite the numerous procedures that are outstanding throughout the country, as well as speeding up procedures to resume rent payments at courts.



**ECONOMIC OVERVIEW**

