



Weekly Report

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***SITME and devaluation:
Cause and effect?***

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This is the last in the series of weekly reports we have been publishing on the Foreign-Currency Securities Transactions System (SITME)... for now. This week we will be addressing the possibility of a devaluation following the implementation of SITME. Is this likely? And if so, when?

**Devaluation: the
fiscal
adjustment
mechanism par
excellence**

It is a well-known fact that our economy's dependence on oil has meant that devaluation has been the fiscal adjustment mechanism par excellence, in both the fourth and fifth Republics, without exception. Devaluation of the local currency, which has considerable impacts on inflation and economic performance, provides an almost instant fix for the Executive's cash flow problems. The devaluation at the start of the year was something that PDVSA was clamoring for, as it was being severely affected by the anchoring of the exchange rate and the limitations this posed on the company's ability to benefit, without any difficulties, from the swap market, which existed until just a few weeks ago.





PDVSA in a trap

The significant appreciation of the bolivar was affecting PDVSA in terms of both revenues and cost structure. The oil company's problem was due to the gap between its revenues (which are in dollars) and a sizeable proportion of its costs (which are in bolivars). That is why PDVSA's average production cost went from US\$3.6 a barrel in 2005 to US\$7.8 a barrel in 2008, an increase of 116.7%, much bigger than the average increase for the world oil industry over the same period (even taking account of the fact that heavy and extra-heavy crude accounts for a larger share of production than before). This increase can be explained by the high inflation that has been a characteristic of our economy in recent years, which pushes up the production costs of any company operating in the country, regardless of the sector it belongs to (and PDVSA is no exception).

This devaluation gave PDVSA, and therefore the Treasury, a breather. According to *Ecoanalítica's* calculations, the devaluation generated extraordinary revenues (excluding the Central Bank's foreign exchange profits) in the order of VEF 84.2 billion.

PDVSA and the foreign exchange market: a cocktail of forbidden relations

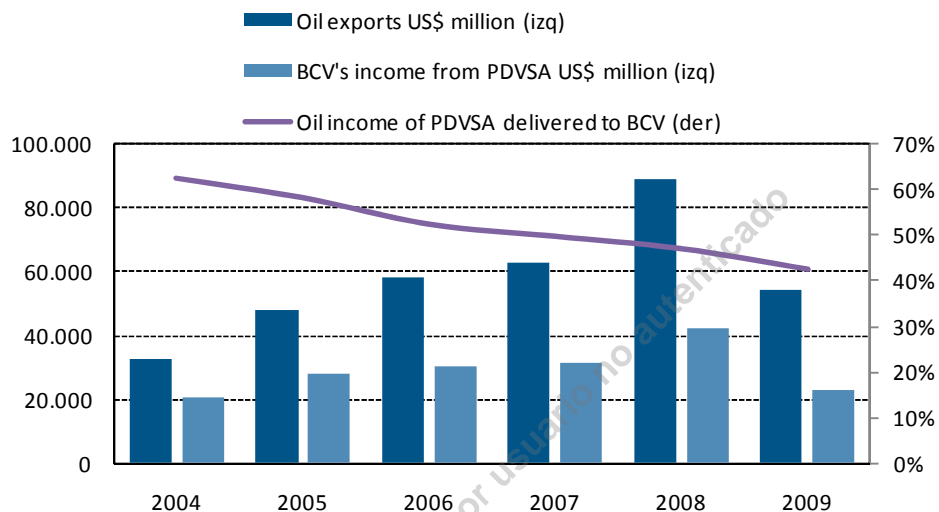
In Venezuela's case, the oil sector has played a leading role in the economy's performance, as it is the main source of foreign currency for the country and of revenues for the State. Oil exports have represented, on average, more than 87.3% of our exports and 59.2% of fiscal revenues over the past 50 years. Up until mid-2004, relations between PDVSA and the Executive were coordinated by the Central Bank. PDVSA was under the obligation to hand over all its foreign currency to the Central Bank, except for a small part that was used to set up a rotating fund to cover the oil industry's expenses abroad. This meant that the foreign exchange policy remained under the aegis of the Central Bank.

In 2004, the National Assembly amended the Central Bank of Venezuela Act, establishing the concept of surplus reserves, and Foreign Exchange Agreement No. 9, which governed the relations between PDVSA and the Central Bank, was issued. In short, this agreement granted PDVSA foreign exchange autonomy and allowed it to set up funds in dollars. From that point on, PDVSA handed over only a portion of its foreign currency to the Central Bank, on average 42.7% between 2004 and 2009, and the rest was handled at PDVSA's entire discretion, with part of it being transferred to FONDEN.





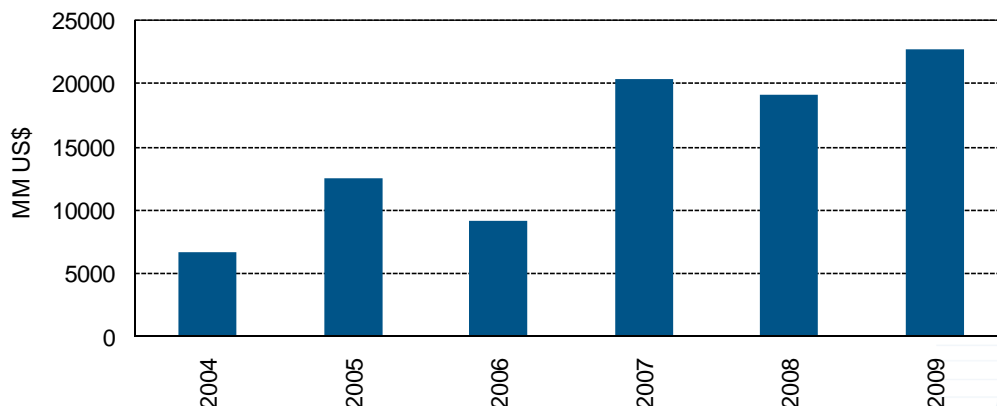
Pdvsa's exchange independence



Sources: BCV and Ecoanalítica

This foreign exchange autonomy allowed PDVSA to take advantage of arbitrage on foreign exchange markets during the years of exchange controls. From 2008 onwards, PDVSA became more actively engaged in the so-called "parallel market." It did these using two mechanisms: payments to its contracts in dollars and direct sales of foreign currency via stockbrokerage houses and broker-dealers. In 2009 alone, according to **Ecoanalítica**, PDVSA injected US\$ 11.06 billion into this market, which represented 48.7% of that market. In other words, directly or indirectly, PDVSA was one of its big suppliers.

Parallel Market (US\$ million)



Source: Ecoanalítica



**SITME:
everyone's
paying the
price**

As one of this market's main suppliers, PDVSA was also its big beneficiary thanks to sizeable foreign exchange profits that enabled it to meet its obligations to the Treasury and cover its own expenses. However, a few weeks ago the Executive, together with the Central Bank, eliminated the parallel market along with its most evident manifestation: the swap operation. While this measure significantly affected the private sector, as mentioned on previous occasions, it also affected PDVSA and, to a lesser extent, other government entities, such as FONDEN and the National Treasury.

At the moment, PDVSA has no mechanism, apart from the Central Bank, for performing foreign exchange operations. It is also excluded from SITME. We estimate that, this year, PDVSA could have placed just over US\$5 billion on the swap market. But today it has been left with no mechanism at all.

**And the Treasury
is losing out too**

This situation also seriously compromises PDVSA's contributions to the Executive, both ordinary and extraordinary contributions. So, PDVSA is in a somewhat delicate situation. This issue will bear significant weight on how SITME evolves and on any changes made to the system in the future: any reform that seeks to make this mechanism more flexible will have to include PDVSA and FONDEN, so that they can benefit from this scheme, via the repurchase of public debt bonds for example.

**What do we
mean by
devaluation?**

The current state of pandemonium in Venezuela's foreign exchange situation, with its multiple exchange rates, makes talking of devaluation somewhat complicated. We could talk of three mechanisms: the official system (CADIVI), the Central Bank (SITME), and the illegal (black) market. Here we will refer to the first two.

**The official
system (CADIVI)**

Our fundamental premise is that the possibility of devaluation depends on how SITME evolves. If changes are not made to the system in the short term, the Executive will resort to devalue in the first two months of next year. According to our calculations, this devaluation will only affect the oil exchange rate (VEF4.30/US\$), but will not modify the lowest exchange rate (VEF2.60/US\$). The reason? Around 61% of the portion of its revenues that PDVSA hands over to the Central Bank is declared at the VEF4.30/US\$ exchange rate.

If SITME includes mechanisms that allow PDVSA to participate with its surplus foreign currency, then the likelihood of devaluation will be less.

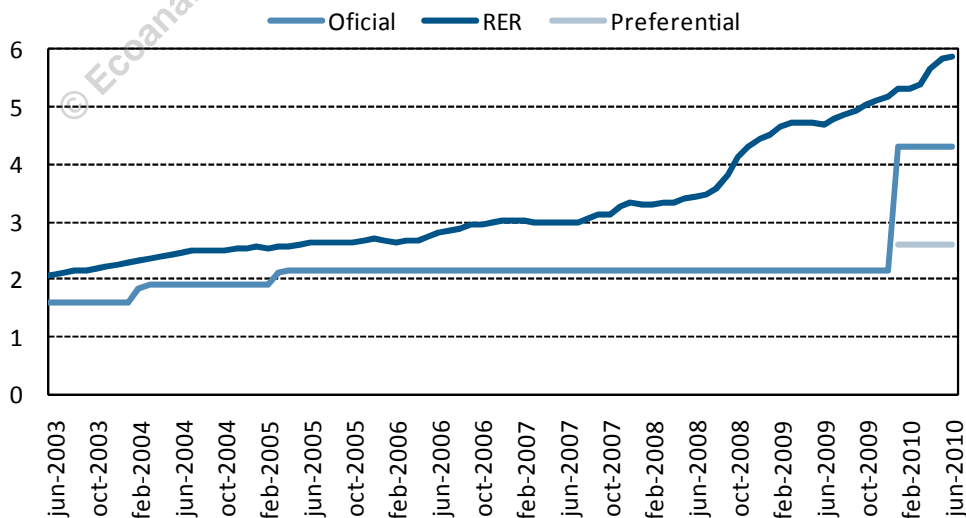


Our recommendation for companies is that they consider a scenario where there is an adjustment to the exchange rate next year. In this context, the survey by LatinFocus (which takes the average of forecasts by the 20 major data providers covering Venezuela) indicates that the oil exchange rate next year will be VEF 4.79/US\$, which means a devaluation of 11.4%. If this devaluation scenario pans out, **Ecoanalítica** calculates that the oil exchange rate will be VEF 5.45/US\$.

At SITME

SITME's case is different. As we have pointed out previously, this system, which is controlled by the Central Bank, is more flexible. This flexibility allows the Central Bank to modify not only the methodology but also the reference band, in particular the upper exchange rate, which, basically, is the reference exchange rate (VEF 5.30/US\$). It should be noted that this exchange rate is clearly appreciated: it was 8.8% below the implicit real exchange rate at the close of June as measured by **Ecoanalítica**. We have pointed out that the floor of the band SITME uses should be indexed to the real exchange rate indicator, since one of the weaknesses of this new mechanism is the defining of the exchange rate that functions as a reference rate, given that it is extremely "cheap" and unsustainable.

Real exchange rate (RER) Vs. Oficial exchange rate



Sources: BCV and Ecoanalítica

Our reading is that there is a likelihood of the reference exchange rate being modified before year-end. The "key" moment for this would be when



the Executive announces the next debt issue. This would also provide PDVSA with an additional advantage when it comes to placing its surplus foreign currency as part of SITME's supply.

The underlying problem

It is clear that the underlying problem in Venezuela, quite apart from the devaluation issue, is one of confidence, which expresses itself in the scant credibility of economic agents when it comes to economic measures. The foreign exchange policy has to be rethought. The way it is designed at present is deepening the recession. In December 2009, we said: "... At **Ecoanalítica** we are of the opinion that, if the Executive manages to establish a serious (credible) strategy with regard to the foreign exchange policy, it would be highly positive for the private sector and the economy in general. Confidence is the key." Seven months later, we are still of the same opinion.

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Economic Tips

CADIVI authorizations in the first semester: The Foreign Currency Administration Commission (CADIVI) has published the figures for the first semester of 2010, which show a total amount authorized of US\$14.32 billion, an increase of 11% compared to the same period in 2009. Worthy of note is that there was a marked reduction in imports under the ALADI Agreement, the main reason being lower imports from Colombia (due to restrictions imposed by CADIVI).

Amount authorized 2010 (US\$ million)			
	1S 2009	1S 2010	Var(%)
Imports	5,965.4	10,621.5	78.1%
Students	104.7	145.4	38.9%
Special cases	28.5	78.9	176.8%
Airlines	399.4	581.3	45.5%
Ext Private Debt	53.7	7.9	-85.3%
Consulates and Embassies	60.6	25.9	-57.3%
Insurance and Reinsurance	76.1	47.0	-38.2%
Foreign Investment	408.2	22.2	-94.6%
ALADI Convention	3,424.9	1,880.4	-45.1%
Retirees and Pensioners	23.9	29.6	23.8%
Remittances to family	365.2	325.8	-10.8%
Credit Cards	1,814.6	449.1	-75.3%
Cash for travel	136.9	83.5	-8.5%
Services	6.7	0.5	-92.5%
Telecommunications	33.5	21.4	-36.1%
Total	12,902.3	14,320.4	11.0%

Sources: CADIVI and Ecoanalítica

Authorizations for imports by economic sector: Worthy of mention is the share of foreign currency granted for food, which fell from 25.8% to 20.1%, whereas the health sector's share for regular imports was 17.6%.





Amount authorized (US\$ million)			
	IT08	IT09	Var(%)
Food	1537.7	2,137.3	39.0%
Commerce	971.1	1,866.8	92.2%
Health	859.3	1,098.9	27.9%
Automotive	607.1	1,521.5	150.6%
Metallurgist	348.2	820.8	135.7%
Chemistry	322.8	581.1	80.0%
Machinery and Equipment	123.2	376.5	205.6%
Services	146.4	328.3	124.2%
Telecommunications	259.3	210.0	-19.0%
Rubber and Plastic	136.9	224.4	63.9%
Computer	47	177.8	278.3%
Construction	113.9	293.5	157.7%
Electronic	57.4	118.7	106.8%
Grafic	55.1	92.6	68.1%
Electrical appliance	64.7	65.6	1.4%
Textile	66	182.3	176.2%
Non Metallic Minerals	71.9	191.7	166.6%
Electric	52.6	91.0	73.0%
Paper - Cardboard - Wood	62.3	116.7	87.3%
Comunications - Press	6.3	9.7	54.0%
Books and School Supplies	11.6	48.4	317.2%
Science and Tech	11.5	11.6	0.9%
Vet	22	32.7	48.6%
Tobacco and Alcoholic Drinks	11.1	23.6	112.6%
Total	5,965	10,622	78.1%

Sources: CADIVI and Ecoanalítica

But when it comes to releasing funds...: A review of how releases of foreign currency performed during the first semester of 2010 reveals that they fell by 2.2% compared to the same period last year. Up until the close of the first semester, private importers had actually received the same amount of foreign currency as in the same period in 2009.





Amount disbursed 2010 (US\$MM)			
	1S 2009	1S 2010	Var(%)
Imports	6,337.4	9,367.4	47.8%
Students	102.2	148.1	44.9%
Special cases	33.4	75.4	125.7%
Airlines	388.8	583.3	50.0%
Ext Private Debt	26.1	5.4	-79.3%
Consulates and Embassies	60.6	27.8	-54.1%
Insurance and Reinsurance	84.8	48.2	-43.2%
Foreign Investment	389.4	20.5	-94.7%
ALADI Convention	3,425.1	1,880.4	-45.1%
Retirees and Pensioners	23.0	29.8	29.6%
Remittances to family	355.6	311.9	-12.3%
Credit Cards	1,962.0	464.7	-76.3%
Cash for travel	128.8	76.1	-8.5%
Services	8.0	0.4	-95.0%
Telecommunications	31.7	17.9	-43.5%
Total	13,356.9	13,057.3	-2.2%

Sources: CADIVI and Ecoanalítica

And releases by economic sector: As in the case of authorizations of foreign currency, releases to the food sector in terms of its share in total regular imports fell, whereas there was a marked increase in the health sector's share.





Amount disbursed (US\$MM)			
	1S 2009	1S 2010	Var%
Food	1736	2,093.5	20.6%
Commerce	754.4	1,942.0	157.4%
Health	805.3	1,018.1	26.4%
Automotive	737.6	934.5	26.7%
Metallurgist	316.9	701.6	121.4%
Chemistry	354.8	673.6	89.9%
Machinery and Equipment	147.6	359.3	143.4%
Services	144.5	211.7	46.5%
Telecommunications	412.9	198.2	-52.0%
Rubber and Plastic	157.8	262.3	66.2%
Computer	59	88.6	50.2%
Construction	168.7	212.0	25.7%
Electronic	51.9	61.6	18.7%
Grafic	78.4	67.1	-14.4%
Electrical appliance	61.7	53.4	-13.5%
Textile	98.9	162.8	64.6%
Non Metallic Minerals	75.1	69.0	-8.1%
Electric	48.4	64.9	34.1%
Paper - Cardboard - Wood	77.4	87.1	12.5%
Comunications - Press	2	7.6	280.0%
Books and School Supplies	14.8	25.8	74.3%
Science and Tech	12.1	14.9	23.1%
Vet	15.4	31.6	105.2%
Tobacco and Alcoholic Drinks	5.8	26.4	355.2%
Total	6,337	9,368	47.8%

Sources: CADIVI and Ecoanalítica

Seniat collection. The National Customs and Tax Administration (Seniat) indicated that non-oil tax revenues held in the first half of the year were VEF 47.9 billion, which translates into a real variation of -1.6%.





Seniat collection (millions VEF)	1S 2009	1S 2010	Var %
Income tax	11,453	12,362	-16,8%
Value added tax	14,187	20,743	12,7%
Customs revenue	2,752	3,205	-10,2%
Other taxes	2,034	2,742	3,9%
Total Collection	37,545	47,927	-1,6%

Sources: Seniat y Ecoanalítica

More unbundled. In the information published by the Seniat we can see that with regard to Value Added Tax (VAT), it registered a real increase of 11.7%, while for the Other Internal Revenue the actual change was more moderate, reaching 3.2%. However, in regard to income tax and customs revenue, there was a contraction of 16.0% and 14.7% respectively.

Unemployment figures for June. According to the figures published by National Statistics Institute (INE) the unemployment rate closed at 8.4% for the month of June, representing a slight increase over the 8.1% level presented in May. Over the same period in 2009, unemployment has increased by 3.4%, while in comparison with the level of late last year has increased by 19.7%.

Independence Fund: In April, the government decided to create the Independence Fund, which was set up with the foreign currency earnings obtained by PDVSA following the devaluation. While scant information on how this fund is going to work and the volume of resources it will be handling is still not available, it is known that it is already being used to finance current spending via additional credits. In addition, President Chávez has announced that this Fund will also have to feed the Bicentennial Fund, whose function is to provide financing for importers and exporters. The government plans to increase the balance on the Bicentennial Fund and, to that end, it requested VEF 5 billion from the public banks and VEF 5 billion from other special funds and it also expects contributions to be forthcoming from the private banks.

Recession reflected in informal employment: Informal employment reached 46.6% in May, its highest level in five years, according to data from the National Statistics Institute (INE). At the close of May, the number of informal workers had risen to 5,521,740, up 177,464 from last year and an increase since 2005 of 768,094. It was precisely in May 2005 that the level of informal employment peaked, with 46.8% of the working population falling within this sector. Then it started to come down as a result of an improvement in the economic situation. In May 2008 the trend line broke, when informal employment went up to 43.7% and started to climb again, reaching 44.9% in May the following year, according to the INE.



SUCRE moves ahead. The president of the Regional Monetary Council, Eudomar Tovar, explained that the Unitary Regional Clearing System (SUCRE after its initials in Spanish) is a process that is being set up to strengthen integration among the regions. He also maintained that trade is going to expand and the reasons for that are *“because exporters, both domestic exporters and exporters of other ALBA countries, can export or import without taking out foreign currency.”* Tovar stated that this system is going to bring the countries benefits, *“because of bigger revenues, there are savings in foreign currency that can be allocated to other activities and it makes it possible to unite trade on the basis of cooperation, solidarity, and respect for the sovereignties of peoples.”*

Interest rate. The lending rate for the second week in July was at 18.9%, down by 202 base points compared to the previous week. Time deposits and savings rates were at 14.7 and 12.6%, respectively. This reflects a 11 base point increase for time deposits while savings remains steady.

International reserves. International reserves dropped by 1.7% going from US\$29.03 billion during the second week in July to US\$28.54 billion during the second week in July. Compared to the same period last year, international reserves dropped 7.5%.

Monetary liquidity. Monetary liquidity for the second week in July was up down by 0.7% compared to the previous week settling at VEF 245.42 billion, so far this year, liquidity has gone up by 4.1% in nominal terms and down by 8.6% in real terms compared to the same period last year.

Oil Tips

Pdvsa's Tax contribution increased by 44.9%. In nominal terms, the State-owned oil company's tax contribution has increased by 44.9%, going from VEF 16.1 billion in the first semester of 2009 to VEF 23.36 billion in the first half of 2010; royalties reached VEF 17.3 billion, for a 68% increase compared to the 10.3 billion of the first half of 2009; but the Income Tax contribution decreased from VEF 4.6 billion to VEF 3.9 billion, a 15.2% reduction.

14% of China's Oil-related investments are in Venezuela. According to numbers released by the International Energy Agency, last year Venezuela caught 14% of the resources invested abroad by Chinese oil companies (CNPC, Sinopec and China



National Offshore Oil Corporation). Chinese oil companies invested US\$18.2 billion offshore, out of which US\$2.5 billion were destined to Venezuela.

Two electric malfunctions at the El Palito refinery. Two electric malfunctions occurred simultaneously on Friday July 16 affecting the operations at the El Palito refinery in the Carabobo State. The first malfunction occurred to a medium-capacity transmission line and the second happened in an electric substation in Carabobo. The startup of the refinery's Distillation and Specialties units is already in its final stage, after the operations had to be shutdown due to the electric failure.

More technical failure at El Palito. Besides the electric malfunctions, on Saturday July 17, El Palito refinery's catalytic cracking (FCC) unit's steam generator presented a malfunction that produced damages to a gas outlet structure; according to Pdvsa, this failure could be solved in 15 to 20 days.

Also in the Amuay refinery. The flexicoker unit of Amuay's refinery (the country's largest one, with a capacity of 645 kb/d) has been shut down for over 90 days due to a maintenance procedure originally planned to be carried out over 45 days.

Pdvsa guarantees supply of methane gas. Pdvsa Gas started a number of maintenance labors on 155 Km of the main natural gas transportation pipes towards the industrial and petrochemical sectors. Pdvsa gas guarantees the delivery of 160 million cubic feet of gas per day to the Paraguana Refining Center, as well as the supply to Pequiven, Corpoelec, Planta Centro and El Palito Refinery.

BP able to seal the oil spill, but the operation was not a complete success. Last Thursday, Jul15, the British oil company, BP, was able to stop the oil spill at the Gulf of Mexico by installing a huge cap 87 days after the oil platform installed in the area exploded and sank. However, on Monday, the US Government detected a leak at the oil well, so BP was ordered to reopen the containment hatch as quickly as possible to avoid another possible disaster. According to BP, the company has already spent over US\$4 billion to stop the oil leak at the Gulf of Mexico.

Oil Spill in China. Over 1500 tons of oil have been poured off the northeast coast of China, in the area where the Bohai sea and the Yellow sea converge (between China and the Korean peninsula), due to leaks in two oil pipelines. The black stain covers almost 100 square km and 20 vessels are already working to collect the lost crude oil and according to official statements, the spill does not affect tourist or residential areas.

US refining capacity reduced for the first time since 2003. According to numbers released by the EIA, as of January 1 of 2010, the US refining capacity decreased by 87,760 b/d compared to the first day of 2009, for a total capacity of 17,583,790 b/d.



This contraction of US total refining capacity was due to the closure of two refineries: Sunoco's (145 kb/d) in Westville and New Jersey and Valero's (182 kb/d) in Delaware City. These reductions to the refining capacity were partially compensated by the expansion of Marathon's Garyville refinery in Louisiana, which increased its capacity by 180 kb/d. In 2009, the use of US total refining capacity averaged 83%, 9 percent points below the 92% use ratio averaged during previous years, due to the reduction in the demand of byproducts that started near the end of 2007, boosted by the rising of prices and then the world economic crisis.

US\$80 is the goal. President Chavez said that oil prices were still low and that a minimum of US\$80 per barrel would be a fair price for our country's crude oil. *"This year it's around US\$58–59, still low, a fair price for our oil today should not be below US\$80," he said in a speech given to retirees.*

International oil baskets. With an hour left of trading in the New York market before closing last Thursday, July 22, WTI was at US\$78.8/bl, showing a 2.6% increase compared to the US\$76.8/bl it was at the previous Thursday. Brent increased by 3.8% to reach US\$77.4/bl, compared to US\$74.5/bl it was trading at the previous week.

Local oil basket price. The Venezuelan oil basket increased last week, and closed at US\$67.8/bl on July 16, up by US\$3.4 from the US\$64.4/bl it was trading at the previous week. Meanwhile, the basket's annual average decreased to US\$69.8/bl.

Business Sector Tips

Several are leaving. At first, representatives of Fedecamaras, Consecomercio, Conindustria and Canidra stated their concerns to the exchange authorities and the country about the lack of availability and insufficiency of foreign currency granted, limiting the performance of their production hubs, now, the Venezuelan-American Chamber (Venamcham) and its president, Carlos Henrique Blohm, made a call to official authorities to open doors to agreements giving more freedom to agents and companies to participate in the Sitme.

Authorizations to bi-national chambers. The Currency Administration Commission (CADIVI) has authorized a total of US\$2.77 billion so far this year for companies part of Asian bi-national chambers, with an increase by 117% compared to 2009, a year in which US\$ 1.28 billion were authorized over the same period of time.



No investment climate. Fernando Morgado, president of Consecomercio, stated the announcements of expropriations do not allow the existence of a climate to encourage investment, generating fear in entrepreneurs, beside the fact that many of those so called expropriations end up being confiscations.

Econoinvest rejects accusations. Juan Ramon Carvallo, attorney of Econoinvest, rejected the accusations made to four company executives and said they were in jail because "there were evident confusions that do not correspond with reality." Among the accusations is the detection of 800 client files with the same address and a machine that made fake identity cards, which Carvallo claimed to be false.

Clients called. The National Securities Commission (CNV) made a call to Econoinvest clients to speed up their procedures regarding their accounts and the payment of deposits in this brokerage house closed for audit by the Government. It also indicated that bond holders should head to the Venezuelan Securities Safe (CVV) to request the transfer of these securities to another financial institution.

Mercal's coverage. Ronald Rivas, vice president of Institutional Procedures at Mercal said the network of people's markets was currently covering 16% of the national food demand. The network currently has 16,000 establishments and plans to open 1,200 more this year, and 35% of these establishments are in the states of Zulia, Carabobo and Miranda. Mercal has a participation of 110,000 tons of food per month.

Client portfolio down. According to numbers released by Softline Consultores, the banking system's loan portfolio has increased by 6.1% in nominal terms so far this year, to reach VEF 151.3 billion. Subtracting the effect of inflation, the portfolio shows an 8.4% decrease. The leading bank in loans portfolios is Banesco with VEF 24.58 billion, followed by Mercantil with VEF 21.15 billion and Provincial with VEF 19.67 billion. The consulting firm also indicates the banking system reports revenues for VEF 3.26 billion, a 1.0% contraction in the last twelve months, and delayed payments have increased over the same period going from 2.1% to 3.3%.

More problems for Polar. Remaveca, a rice producing company owned by Empresas Polar, is currently in danger of shutting down production due to a possible strike of workers demanding the same benefits for field workers and employees. The supply of rice to consumers will not be affected since 85% of the plant's production is used for beer.

Whatever we don't produce, we import. According to numbers issued by the National Federation of Venezuelan Sugarcane Farmers' Associations (Fesoca), 350,000 tons of crude sugar to be refined have been imported so far this year, while 400,000 tons were imported in all 2009. This is due to a 21.9% reduction of the cane-



cutting season. It also indicates that coffee imports reached 550,000 tons, mainly from Brazil, and 300,000 tons of white corn were also imported.

Market contracts. Aquiles Martini, president of the Venezuelan Real Estate Chamber (CIV) said the real estate market was suffering a contraction in apartment and other purchase-sale operations, from a 60% decrease in the construction of new homes. The causes of this contraction, he said, is the difficulty to obtain national supplies such as cement and iron bars and imported supplies such as elevators and electric materials.

Rationing continues. Calife, a Corpoelec affiliated company, is to start a programmed electric rationing plan in the Carabobo state, to avoid overcharges to Planta Centro, since a damaged autotransformer needs to be replaced. Each sector will have a service interruption for one hour on a specific day.

A stimulus is necessary. The president of Fedecamaras in the Miranda state, Fernando Castro, talked about the expropriations in the industrial area of Guarenas, saying these economic policies were a result of improvisation. He also assured that a real industrial stimulus policy that allowed the creation of conditions to stimulate development and production in our country actually existed.

No more forced evictions. The first vice president of the National Assembly, Dario Vivas, in a round table with tenancy organizations, agreed to request the Supreme Court of Justice (TSJ) to declare, as soon as possible, the nullity of forced evictions to allow the protection of tenants and to review the legal text on tenancy. They will also analyze the possibility for tenants with more than 15 years in tenancy to assume the home as their own.

World Crisis Tips

Financial regulation bill signed. President Obama signed the widely expected and discussed financial regulation bill into law this week, after the Senate authorized it on Thursday with 60 votes for and 39 against.

US retail sales keep decreasing in June. US retail sales decreased by 0.5% in June compared to the previous month, after a 1.1% decrease in May. Compared to June of 2009, retail sales have recovered by 4.8%.



US Consumer sentiment falls. According to the results of a survey carried out in July by the University of Michigan, the consumer sentiment index decreased by a significant 13.8% compared to June, going from 76 to 66.5 points, this being the lowest score since August of 2009. Compared to July of 2009, the expected business conditions during the next year index is 5.8% (y/y) below its level of one year ago, and the expectations for business conditions during the next five years remained stable (0%, y/y). The sentiment about current economic conditions also decreased sharply (-11.8% m/m) compared to June, to reach 75.5 points, then lowest since November of 2009.

US industrial production recovery stutters. During June, the total US industrial production increased by 0.1% compared to the previous month, after having increased by 0.3% and 1.3% in April and June, respectively, to reach a level 8.2% over June 2009's. The percentage of installed capacity utilization held stable at 74.1% (its highest level since November of 2008), almost 6 percent points over the capacity utilization of June 2009, and 4.1 percent points over 2009's average.

US Home builders are pessimistic. According to the latest Home Builders Association's survey, home builders are significantly more pessimistic than during the last few months, since the composite index of housing market activity fell back by 14 points from 16 and 22 reported in June and May, respectively. This index, which historically maintains a 75% correlation with the y/y change in the new plus existing single family home sales, indicates the dominance of negative expectations by home builders by reporting less than 50 points.

Housing starts reflect builders' pessimism. June Housing starts dropped another 5%, going from an annual rate of 679,000 homes in April to 549,000 in June. This places housing starts in its lowest level since October of 2009, even 5.8% below the level of June 2009.

Philadelphia Federal Reserve indicates further economic deceleration. The Philadelphia Fed's business conditions index indicates the region's manufacturing sector contracted in July for the second consecutive month, going from 21.4 points in May to 5.1 points in July, but still aims to economic growth (since in this index of positive and negative values, zero means a stagnation of the manufacturing sector). This index has a historical 78% correlation with the q/q GDP growth rate.

Euro zone current account deficit widens. Despite the recent depreciation of the Euro, which has undoubtedly boosted the growth of exports in key countries of the euro zone, the regions trade deficit keeps increasing since imports keep growing at a faster pace than exports recover, which translated in a deficit of €5.8 billion in May,



after a €5.3 billion deficit the previous month, and a commercial surplus of €1.5 billion during March.

Moody's downgrades Ireland. Moody's rating agency downgraded Ireland's sovereign debt by a notch, from Aa1 to Aa2, with a stable outlook, arguing the gradual but significant loss of financial strength of the Irish Government. The agency also alleged the economic growth outlook was smaller than those previously expected due to the severe sinking of the banking and real estate systems. The debt's downgrading occurred a day before the programmed auction of €1.5 billion in sovereign bonds to six and ten years, but was not at all a surprise for the market, since Ireland was able to sell all €750 million at six years with a 4.5) yield and the €750 million with a 5.5) yield, levels slightly lower than the average six and ten-year yields for the Irish debt in the secondary market and lower than the yields of May and June auctions.

Political Tips

What mercanalisis says. According to Mercanalisis' latest study, the Venezuelan people are looking for a leader who solves everyday problems. The study was carried out six months before the election and six expectation categories were created, one of them indicates the greatest feeling Venezuelan people has is that of "living in danger," of which indicating elements are the crime rate, and the lack economic and juridical safety. The study also revealed that people feel "there is no future."

Willing to anything. President Chavez threatened to break relations with Colombia if President Alvaro Uribe kept issuing accusing statements against Venezuela. "If they continue with this craziness within the next few hours, I'll break relations with Colombia, I mean it, and that would make it even harder for the new government to try to restore relations with Venezuela..." He assured the Venezuelan Government was willing to resume relations with the Colombian Government, as long as they maintained an attitude of respect. He reiterated that President Uribe's accusations about guerilla in Venezuela had no foundation. He also announced he would not attend the swearing in of Colombia's new elected president, Juan Manuel Santos, because he had to protect his own life.

Chavez assured the Government would appoint a representative in Globovision's board of directors. President Chavez announced that within days the auditing commission of Banco Federal would have to appoint a representative to the board of directors of Globovision, since the Government owns 25.8% of the news



channel's shares; to which he recommended Mario Silva and Alberto Nolia. "We are not expropriating, we are incorporating ourselves to the business," "...we're open to suggestions of people to go there to defend the interests of the shareholder, pure capitalism, that's capitalism," Chavez added. "There's another 20% in the air (...) because when the concession was given, that man received 20% and unfortunately he passed away (Mezerhane), and the Law says these concessions are not hereditary," he said.

Globovision assures the Government is not entitled to appointing a director. The news channel, Globovision, released a statement in its website clarifying that the Government is not entitled to appointing members to the board of directors since that decision must be made by the Assembly of Shareholders, with votes of more than 55% of the stock capital.

Arrested by DIM. The news director of the TV Channel RCN Television, Clara Elvira Ospina, denounced the arrest of four Colombian reporters in Venezuelan territory. The reporters are allegedly in custody by the DIM, according to RCN, quoting the Colombian consul in Caracas, Maria Elvira Cabello. The Colombian journalists were trying to locate the base camp of Carlos Marin Guarin, AKA "Pablito," one of the leaders of the National Liberation Army (ELN), allegedly located in that Venezuelan region according to accusations by the Colombian Government.

Disqualification suspended. Gustavo Azocar, journalist and secretary general of Un Nuevo Tiempo in the Tachira state, confirmed the CNE suspended the disqualification originally issued against him, so he would be asking the Unity Table to reinstate his candidacy for the Tachira state for the parliamentary election of September 26. He said he had started procedures with his lawyers since March. He stated he accessed the CNE website and corroborated the code 7 and the disqualification that kept him from running to office no longer appeared.

New investigation. A new investigation is to be started against the opposition Governor of Tachira, Cesar Perez Vivas, for the alleged embezzlement of funds since his former party comrades accused him of using resources from the State Lottery to carry out acts of proselytism within the organization, as was denounced last Wednesday, June 07, by the president of the green flag party in Caracas, Yamil Tovar.

Accused of conspiracy. The 6th Court of control ratified the preventive arrest of Alejandro Peña Esculsa at the Bolivarian Intelligence Service (Sebin) for the traffic of explosives and weapons in the degree of participation, association to commit a crime and conspiracy in an alleged complot against the President of Venezuela.





Confrontations with US. Juan Jose Mendoza, president of the National Assembly's (AN) Defense Commission said the US Government, through the military bases of Colombia, was permanently flying over Venezuelan borders "with a provocative attitude."

Tension with the Chilean Senate. Both Cilia Flores, president of the National Assembly and Tlbisay Lucena, president of the National Electoral Council, rejected the Chilean Senate's position about the Venezuelan parliamentary election, in which they recommend international organizations to have a supervising attitude in order to guarantee the integrity and transparency of the election, as well as sending a commission of senators as electoral monitors. Both Flores and Lucena indicate this is a clear interference with Venezuelan internal affairs and a violation to the norms of international law, such as chapter five of the Inter American Democratic Charter.

Tensions with Colombia increase. The Colombian Government will denounce the presence of four leaders of the Colombian Revolutionary Armed Forces (FARC) and one of the National Liberation Army (ELN) in Venezuelan territory. Both Alvaro Uribe, and the elected President of Colombia, Juan Manuel Santos, held a meeting this week to discuss, among other issues, the bilateral relations between Colombia and Venezuela. The former minister of defense, Orlando Maniglia, considered the Colombian minister of defense's act of denouncing the presence of guerilla chiefs to the OAS as a wrong act, rather than dealing with the problem chancellor to chancellor. President Chavez threatened to break relations with Colombia if President Uribe kept issuing these "baseless attacks."

Government keeps attacking Cardinal Urosa. In the 362nd issue of the TV-radio show Alo Presidente, Hugo Chavez expressed his joy for the National Assembly's summoning of Cardinal Jorge Urosa Savino. "Cardinal, you'll have to deal with me all your life for messing not with me, but with the people. I'll be on you all your life, Cardinal... you're not going to get away with it. I know who you are, I know how small your moral is and I say it again, this people deserve another figure to represent them," said Chavez, who also issued statements about pedophile priests and the Church's attitude towards the issue.

Warehouses expropriated in Guarenas. Also in the Alo Presidente show of July 18, President Chavez suggested the expropriation of allegedly vacant warehouses in the industrial area of Guarenas. "I've been talking about that industrial area of Guarenas for years; we have to take over that area; we need to rescue it for the people. We can't have a bunch of abandoned warehouses next to a great freeway. Let's go get them," he said.



“The remains of our Nation’s forefather have been dignified.” In the 362nd issue of the TV-radio show Alo Presidente, Chavez talked about the exhumation of the Liberator’s remains, and about the confection of our national flag with eight stars, commenting that “the remains of our nation’s forefather have been dignified.” He said the flag waving the National Pantheon was original from England, but now “we have a new flag made by our people.”

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ECONOMIC OVERVIEW

