WEEKLY REPORT

Year 15. Number 28 Week III
August 2019

Secondary sanctions: A statement of intentions

As time passes, the actions of the President, the State of Department and of the Treasury Department of the United States become more important to the Venezuelan economy. On August 5th, a new Executive Order (13,884)[1] by Donald Trump was announced. This order implies new restrictions to the *de facto* regime ruling Venezuela.

Some people quickly started to refer to it as an "embargo to *Venezuela*", even comparing it to the cases of Cuba, Iran and North Korea. This is not true. The best interpretation of this new set of American sanctions is just an extension of the reach of the November 2018 (13,850)[2] and January 2019 (13,857)[3] sanctions.

This extension has taken two main shapes: (i) to block the Venezuelan Government's assets (not just PDVSA's assets); and (ii) to sanction the environment (suppliers, buyers and other commercial partners) of the Venezuelan Government and others sanctioned as well.

Readers may remember that, under many interpretations of the order, the second point was already established in the Executive Orders 13,850[4] and 13,857[5]. Nevertheless, even though there was already a legal framework that included all PDVSA's suppliers and buyers in the *Specially Designated Nationals* (SDN) list, the Treasury and State Department decided to not take action against some of the main partners. This time, the order is clearer about pressuring these associates.

To clarify that this is not an embargo, the US Office of Foreign Assets Control (OFAC) published 13 new General Licenses[6] that exempt some sectors and activities of any sanction, even if they are related to the regime. These exemptions include medical services, NGOs, consulates, ports and airports activities, mail, internet and

[1] OE 13884: *Blocking Property of the Government of Venezuela*. August 5th, 2019. OFAC.
[2] OE 13850: *Blocking Property of Additional Persons Contributing to the Situation in Venezuela.* November 1st, 2018. OFAC.
[3] OE 13857: Taking Additional Steps to Address the National Emergency with Respect to Venezuela. January 25th, 2019. OFAC.
[4] Weekly report N° 43 of 2018: "*Maduro is running out of friends*".
[5] Weekly report N° 3 of 2019: "*Endgame*".
[6] General licenses 21-33.OFAC. *Venezuela-related sanctions*.

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telecommunications enterprises, transactions related to the United Nations, and transactions directed by the interim Government of the General Assembly and Juan Guaidó.

The objective

As time has gone by, it has become fairly clear that the regime does not operate as a government that maximizes welfare for its citizens. It has also become clear that Venezuela is not a democratic country in which the absence of welfare can be channeled to produce political change via a pre-established institutional mechanism.

The link that political analysts have historically been wont to make between GDP and the fall of the government is being put increasingly in doubt. But that being the case, what purpose do sanctions serve?

Although there is no mechanism via which the people's discontent can be transformed into political change, discontent among the military and within the ranks of the United Socialist Party of Venezuela (PSUV) does have such a mechanism.

As we explored in this year's Weekly Reports numbers 10[7] and 13[8], the members of the regime operate as a network of rent-seeking structures. The main sources fueling these structures are: (i) public sector oil imports (which fuel gasoline smuggling); (ii) public sector nonoil imports (through both over-invoicing and the foreign exchange subsidy implicit in these operations); (iii) illegal mining and the exporting of illegally mined gold; and (iv) drug trafficking.

Each of these structures has a different distribution mechanism, some of which may be more efficient than others in terms of minimizing internal pressures. Some structures are broader-based or more restricted than others, including having more or fewer individuals at the base of the pyramid. They can also be taller or shorter depending on how many intermediaries there are in the chain. In the case of the over-invoicing of imports, for example, the structure is short, whereas in drug trafficking the structure has more levels of intermediation.

The purpose of the sanctions, as explained in Executive Orders 13,850, 13,857 and 13,884, is to dismantle the network of rent-seeking structures existing within the regime and also to make the government's trading partners (who do not necessarily benefit directly from this rent-seeking) less willing to work with the regime.

[7] Weekly Report 10, 2019: "*Looting El Dorado*".
[8] Weekly Report 13, 2019: "*Between the jungle and the border: Gasoline and cocaine trafficking*".

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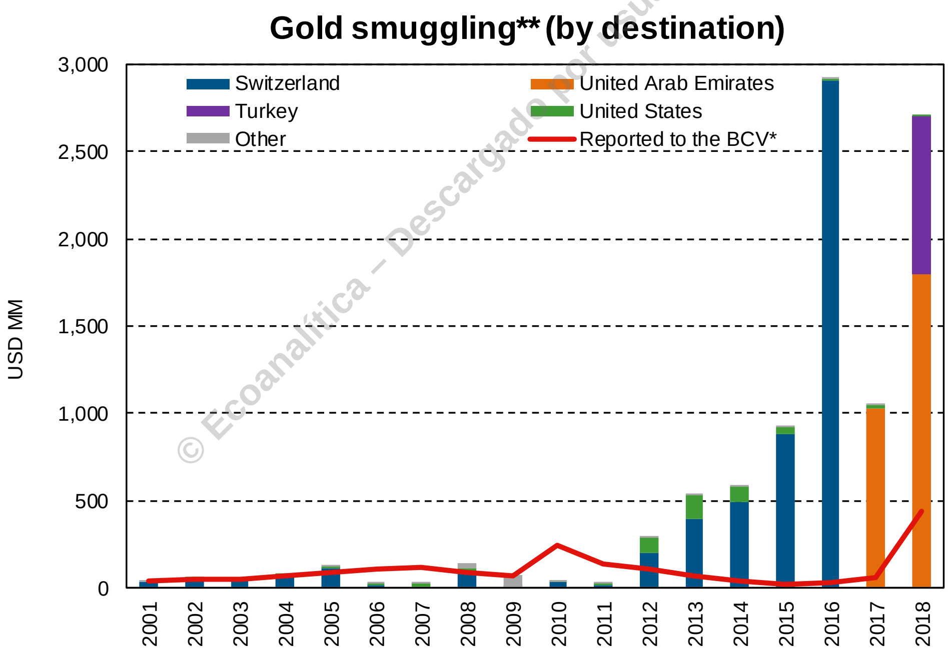
The structures have changed, but they still exist

The case of gold up until 2016 was discussed in detail in this year's Weekly Report number 10. At the moment, information about 2017 and 2018 is limited. But new international trade data and leaked documents[9] allow us to update the analysis.

As it is evident in the next graph, great scale contraband appeared after the nationalization of the mining industry in 2011. One year later, contraband reached around USD 182 million. Five years later, gold contraband increased 1,488% (reaching USD 2,986 million). In 2017, Switzerland stopped working with Venezuelan gold and UAE surges as a new partner, buying USD 1,031 million. In 2018, the emirate relationship strengthens (USD 1,797 million) and a Turkish businessman starts talks with Maduro, buying USD 901 million.



Sources: UN Comtrade and Ecoanalítica
*Gold buyings in the local market reported to the Central Bank.
**After nationalizing gold (2011), export were higher that purchases done by the BCV.

The biggest buyer in 2018, Noor Capital (27.4 tons), issued a press release in February this year stating that it was going to stop dealing in Venezuelan gold as a result of US

[9] More than 33 tons of Venezuelan gold left the country in 33 flights towards Dubai and Turkey in 2019. Runrun.es.

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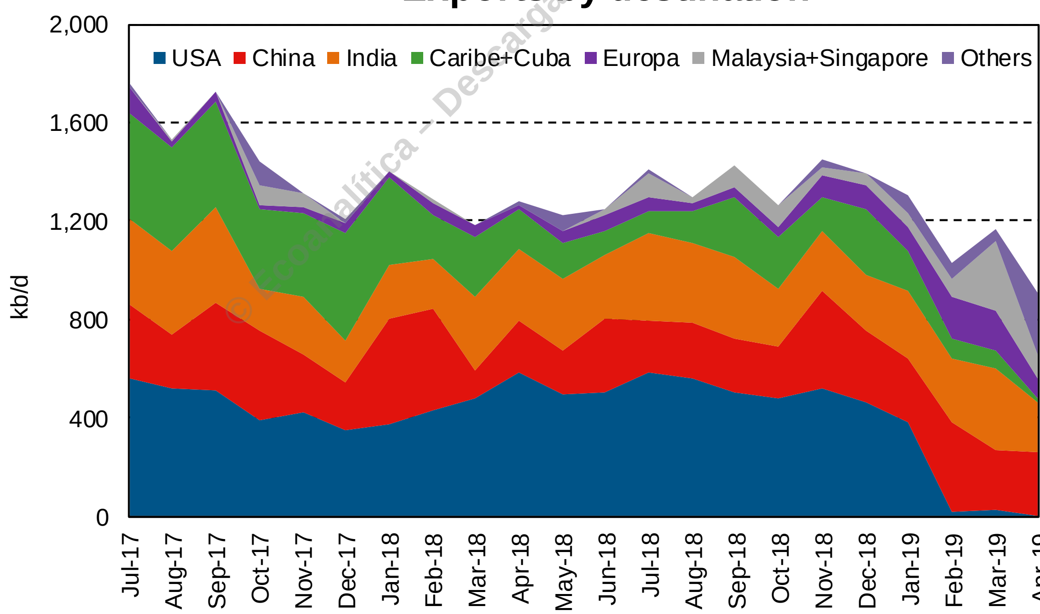
sanctions[10]. However, both Sardes Kiymetlí Madenler A.S (24.0 tons in 2018) and Goetz Gold LLC (21.9 tons in 2018) continue to operate with illegal gold.

The new sanctions could bring additional pressure to bear on both refining companies to cut their ties with Venezuela and thus cut off a major flow of rents for groups of power. But both Arab and Turks have incentives to keep buying Venezuelan gold. In 2018, international trade data reveals that 24.0 tons were sold to a 16.1% discount rate, while that the 49.3 tons sold to the UAE were done at a discount rate of 18.5%.

As a result of the January 28 sanctions, PDVSA's sales strategy has done a 180 degree turn to focus on Asia. For more information regarding this change, we suggest you consult our Weekly Report Number 23[11]. In broad terms, PDVSA's exports at the moment are going mainly to two refineries in India; then there are the purchases by Chinese state-owned oil companies, nearly 43 kb/d that are being sent to Nynas for Europe[12], shipments to storage/re-export centers in Singapore and Malaysia, and nearly 202 kb/d that are being sent to unknown destinations.

Exports by destination



Sources: Refinitiv Eikon and Ecoanalítica
Note: Refers to the exports that embark out of a Venezuelan port.

[10] Noor Capital bought 3 ton of gold to the Central Bank of Venezuela. February, 2019. Reuters.
[11] Weekly Report 23, 2019: "*The decline of PDVSA*".
[12] *What impact will new US sanctions have on Venezuela's August crude exports?* August, 2019. S&P Global Platts.

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PDVSA has less than 10 highly relevant clients in all. The new Executive Order extends its pressure explicitly to these clients in sub-clause "b.i" of Section 1 and in Section 3.

In addition, the new sanctions will have repercussions for all companies that supply PDVSA or any branch of the public sector with any type of good or service. It is not clear whether the US Treasury Department's Office of Foreign Assets Control (OFAC) has plans for sanctioning them directly, given that in the past it has been cautious when it comes to including companies and individuals on the list of Specially Designated Nationals (SDNs). Even so, these companies will undoubtedly find it difficult to convince the compliance departments of US banks and to get them to allow them to perform transactions.

If this prompts some of PDVSA's suppliers to decide to cease doing business with the state-owned oil company, there will be repercussions in terms of crude production. So, the impact of sanctions could be distributed through sales and crude production channels. A reduction in the generation of cash could, in turn, result in a reduction in oil and nonoil imports brought in by the public sector.

Fishing with an oil net

In the case of the oil imports, there is already evidence that the shortage of gasoline has dried up the fuel smuggling to Colombia[13], reducing the rent obtained by that structure. Further, this might have triggered a "domino effect" on the stupefacient production industry in North Santander, which had to resort to the local gasoline market, generating excessive demand and drying up the non-smuggled gasoline[14], assuming higher production costs.

Moreover, tanker monitoring data indicate that the importing of gasoline and associated products hit a high in July[15], with an average of 196 kb/d, which means that the shortage could be reduced in the short term. Most of the product comes from a Greek refining company (Motor Oil, Hellas) that has been forging closer ties with Rosneft since 2017[16].

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[13] *Venezuela's oil crisis destabilizes Colombian black markets*. Al Jazeera, June 2019.
[14] Idem
[15] *Venezuela's importing the most fuel since UNS sanctions*. August, 2019. Bloomberg.
[16] *Rosneft expands cooperation with Motor Oil Hellas*. November, 2017. Rosneft.

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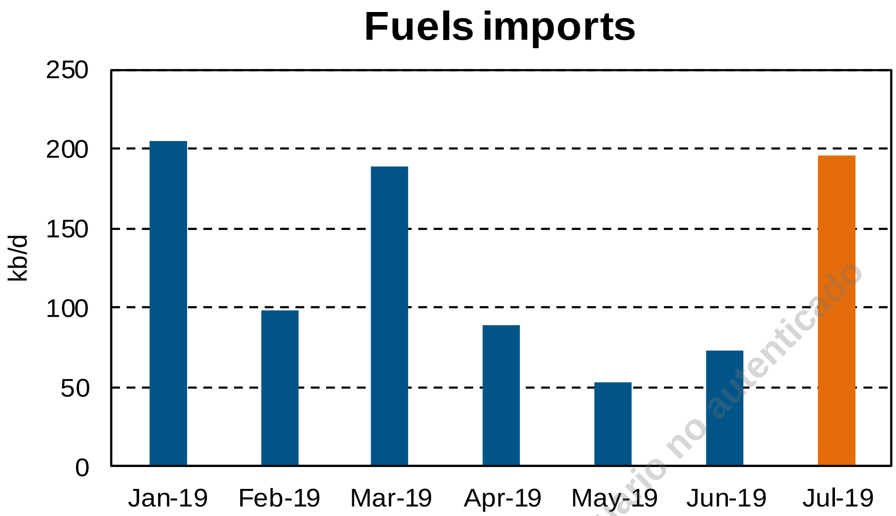

Sources: Shiptracking data compiled by Bloomberg and Ecoanalítica

The case of public sector nonoil imports is more complicated because reducing them implies lower levels of consumption by the strata that have been forced to become more reliant on food imported and subsidized by the regime, making the humanitarian crisis more severe.

Setting value judgments aside, international trade figures reported by Venezuela's trading partners show a steep drop in imports that cannot be explained solely by a contraction in private sector imports. In fact, arguments abound[17] for thinking that private sector imports have remained relatively stable despite the contractions in the economic activity, restrictions on credit and the increase in the tax burden.

We also believe that mirror import data may be underestimated for two main reasons: the increase in *door-to-door* imports, which are not reported in foreign customs statistics, and the proliferation of barter agreements in the case of oil imports, which are not included in foreign customs data either.

Bearing in mind the effect of both these factors, we estimate that total imports in the first half of the year came to approximately USD 3,153 million (40.9% less than in 1S2018), only USD 730 million of which we estimate were nonoil imports brought in by the public sector. In a context where the foreign exchange differential is smaller than in the recent past, the drop in these imports, alongside the reduction of oil imports, would reduce the foreign exchange subsidy obtained by the public sector to only USD 403 million (down

[17] Mainly, the real exchange rate appreciation process that has increased the imports competitivity in the Venezuelan market.

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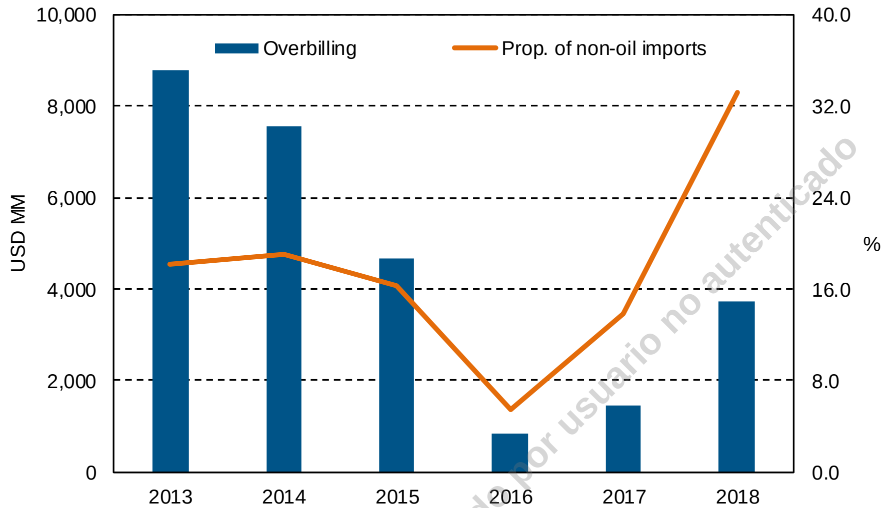
95.5% from 2012 and 72.5% less than in 2018). In addition, it would reduce the level of over-invoicing of imports, which averaged USD 2,665 million between 2015 and 2018.

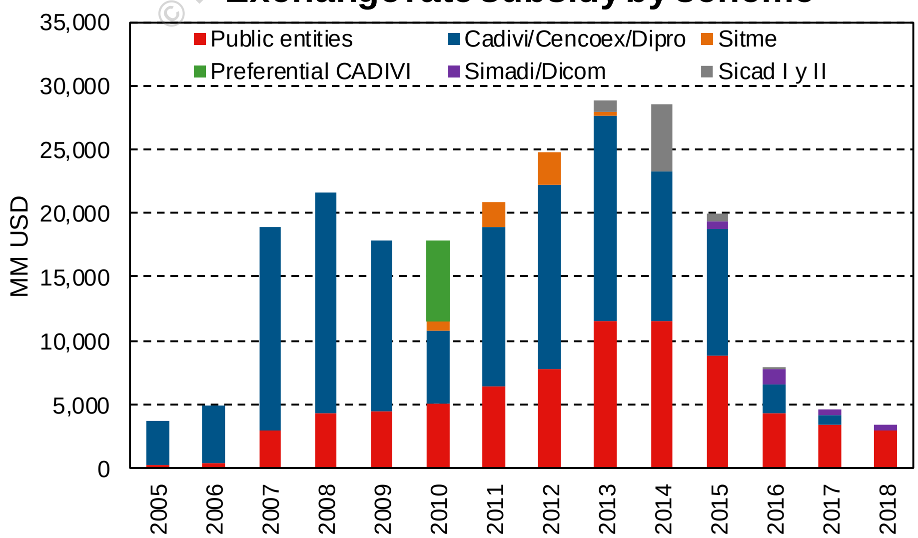
Imports overbilling



Sources: TradeMap and Ecoanalítica

The foreign exchange subsidy and over-invoicing of imports were not only the main mechanisms for sharing out rents in the past, they were also the mechanisms that allowed greatest flexibility when it came to the discretionary divvying-up of the spoils and provided a plausible veil of denial in the event of any moral questioning thanks to their apparent legality. A greater contraction from this source could generate inner fractures and frictions within the coalition.

Exchange rate subsidy by scheme



Sources: BCV and Ecoanalítica

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Whereas the reduction of gold smuggling imposes restrictions on a specific group of power, the reduction of public sector imports puts pressure on all of them at the same time. This could explain why Maduro has increased the monitoring and repression of members of the armed forces[18].

The negotiations are not in Oslo or in Barbados

Among the General Licenses published by the OFAC on August 6, one that stands out is Number 28, "*Authorizing Certain Activities Necessary to the Wind Down of Operations or Existing Contracts Involving the Government of Venezuela*."

This license functions as a timer; a time bomb that is ready to explode in the early hours of September 4, the date on which it expires. In theory, the license gives PDVSA's clients and suppliers and the clients and suppliers of the other branches of the public sector to wind up their operations on the best terms. In practice, it serves as a threat in a tacit negotiation between the OFAC and the Venezuelan Government's clients and suppliers.

If the threat is credible, the companies will take this month to close down their operations. If it is not, they will ignore and continue to operate as usual, as Chevron did following the expiry date previously stipulated in its license. However, whereas in the first case the companies will get off with a warning, in the second they will run the risk of being sanctioned and being alienated from the US economy and its financial system.

Hence, the sanctions' impact will depend on their capacity to coerce the regime's trading partners into refraining from doing business with the regime before, or after, having to sanction them once the September 4 deadline has passed. Turkey's biggest bank, Ziraat, already announced that it will stop supplying financial services to the BCV and the Government of Venezuela[19]. This first fallen domino will have repercussions over food imports that the Government planned to do with Turkish liras. Moreover, as it is a Turkish public bank, this is a sign to the rest of market that the sanctions are not insignificant.

In the last two days, officials from the Trump administration revealed they are considering sanctions on PetroChina & Rosneft[20]. Since Huawei was sanctioned for violating sanctions against Iran[21], China knows that the Trump administration's threats can become a reality even under their commercial war environment. Therefore, Petrochina's purchases of Venezuelan crude oil have stopped at the moment[22].

[18] *Venezuela's Maduro cracks down on his own military to retain power*. August, 2019. New York Times
[19] Turkish bank Ziraat closes door on Venezuela amid US sanctions. August, 2019. Bloomberg.
[20] *US set to sanction Rosneft fuel trade with PDVSA: Trump administration official*. S&P Global Platts.
[21] *Huawei and top executives face criminal charges in the US*. January, 2019. New York Times.
[22] *China's Biggest Energy Company Shuns Venezuela on Tighter US Sanctions*. August, 2019. Bloomberg.

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The effects on the population

The effects on the population are more diffuse and will depend on the behavior of other macroeconomic variables. Initially, there is the risk that all types of transactions in the international financial system will take more time, because the compliance departments in each bank carry out with extreme caution their due diligence activities. But this phenomenon should fade out as each bank adapts to the new situation.

As for the level of total nonoil imports, there is also room for other considerations. If the real exchange rate continues to appreciate, there will be increasingly more incentives to import food items, and it is only a matter of time before the big supermarket chains get together to sell imported mass consumption food items at a low cost, which would alleviate the food crisis and take up some of the slack left by the public sector. However, this phenomenon will depend on how elastic the sector is with regard to the real exchange rate and its perception of other risks associated with the operation.

As for the public sector, it could suffer less that what is expected. Between April and July, PDVSA managed to cut the discount rate at which it was selling its crude to China from 16.1% to 0%. If that rate had remained constant, PDVSA would have lost near to USD 585 million more by the end of the year. But now the public sector will be able to use the money it has saved for imports, as long as China resumes its purchases.

Similarly, even considering the 141 kb/d fall in July, the drop in oil production has not been as pronounced as forecast at the start of the year, and both the extension of General License 8.b until October 25 and the actual entry into force of the new sanctions in September will postpone the shocks for the near future oil production forecast earlier, saving PDVSA additional revenues on the margin that could also be used to increase public sector imports (or avoid their contraction being more dramatic). Once again, as long as Russia, China and India persist in its crude purchases.

As for what the future holds, the consensus in academic circles is that the sanctions will be positive if they generate sufficient internal pressure among the groups of power to create the conditions for a political change and a change in economic policy. Meanwhile, if the role of the public sector is reduced, there could be other benefits such as the private sector having a greater degree of freedom for importing and marketing goods, accompanied by a loss of power by the state's patronage-based structure.

Guillermo Arcay Finlay

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WEEKLY INDICATORS

Weekly Economic Indicators			
	3rd Week August	Weekly chg. (%)	Depre/Apre (pp)[1]
FX Boards (VES/USD)[2]	13,763.08	7.5	6.9
	2nd Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	29.4	-1.2	7.7
	2nd Week August	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	128.2	0.9	122.9
	2st Week August	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.2	0.7	-2.8
	1st Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	10,775,981	6.3	29,388.2
Price of International Oil Baskets (USD/bl)			
	2st Week August	Weekly chg. (%)	Annual chg. (%)
WTI	53.6	-5.5	-21.3
Brent	59.0	-7.1	-19.4
Price of the Venezuelan oil basket (USD/bl)			
	2st Week August	Weekly chg. (%)	Annual chg. (%)
Weekly Average	54.4	-6.9	-20.2
Annual Average	59.5	-0.3	-5.6

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

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

[2] FX Borads' average exchange rate

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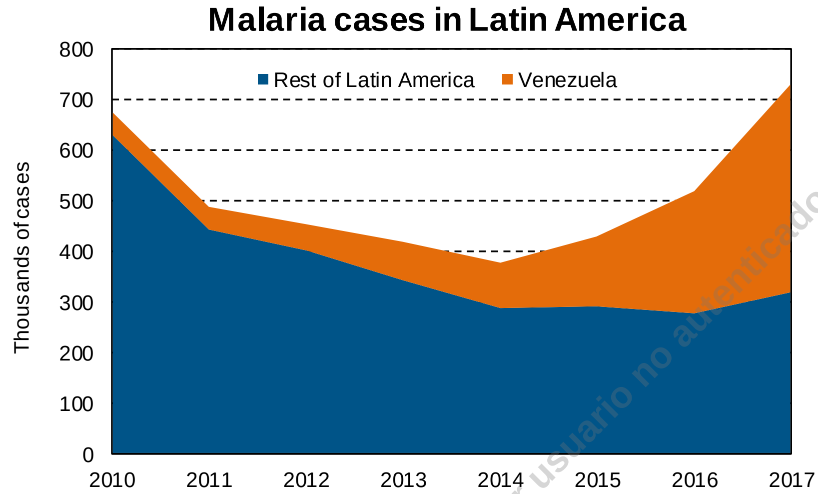
GRAPH OF THE WEEK: HEALTH IN A NOSEDIVE



Sources: WHO and Ecoanalítica

The decline in economic activity in Venezuela has been affecting an important sector: health. Specifically, several international organizations have warned on numerous occasions of the grave situation the country has been facing for some years with regard to malaria, with scant interest being shown by the authorities. Malaria is a disease caused by a parasite that is transmitted by bites from infected mosquitoes. It can be prevented, but, if it is contracted and is not treated, it can be fatal.

The latest report by the World Health Organization (WHO) states that there were 45,155 cases of malaria in Venezuela in 2010 and that that number went up to 411,586 in 2017. That is an increase of 811.5% in seven years. If we compare Venezuela's figures with those for the rest of Latin America, the gravity of the situation becomes even more apparent. The rest of the Latin American region posted 629,434 cases in 2010, 14 times the number of cases in our country. However, over time, the number of cases of malaria in Venezuela has exceeded the number in the remaining countries of the region taken together. Whereas Latin America (excluding Venezuela) had 318,841 cases, Venezuela had approximately 25% more.

It is curious that even though Venezuela was the first country certified by the WHO as having eradicated this disease in the last century, today malaria is prevalent throughout almost the entire country. The WHO even mentions that the growing number of people affected by malaria is partly responsible for preventing an improvement in the region since 2014, putting neighboring countries at risk. It also comments that this deterioration is due to the lack of medicines and the weakening of control programs. But in order to deal with this crisis, first it is necessary to admit that a crisis exists.

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ECONOMIC TIPS

NA-NCPI, Part I. The National Assembly's Finance Committee published its Nationwide Consumer Price Index, which revealed that inflation in July came to 33.8%, for an increase of 9 percentage points compared to June.

NA-NCPI, Part II. This means that inflation in July compared to July last year was 264,872.9% and inflation for 2019 up until July came to 1,579.2%. Commenting on these figures, Deputy Alfonso Marquina said that there had been a slowdown in hyperinflation since the start of the year, arguing that this was due to the reduction in the consumption of food by the population as a result of the loss of Venezuelans' purchasing power.

Taking a look at local reasons. Moreover, Deputy Marquina said that, at the moment, Venezuela is only capable of producing 20% of what it consumes. When mentioning the reasons for this, he stressed that US sanctions "*have nothing to do with it*," claiming that these low levels of production are a consequence of the policies implemented during Nicolás Maduro's term in office.

Taking another look at the debt. The National Assembly held a session given over to the situation of the country's debt. During the debate, Deputy Luis Stefanelli said that the debt came to USD 160 billion, on average.

Reviewing at the bands. This estimate was obtained from consultations with six experts in the matter and after going over the reports prepared by the National Assembly. So the debt ranges between USD 130 billion and USD 198 billion.

Only one is important. Deputy William Dávila added that Venezuela had not paid any of its outstanding debt obligations, either the Republic's or PDVSA's, since October 2017, except for the payments corresponding to PDVSA's 2020 bond. As a result, the country's sovereign debt comes to approximately USD 7 billion.

Precise figures and a breakdown. Deputy Marquina took the floor and explained that the country's external debt came to USD 175.47 billion, highlighting that PDVSA has a financial debt of USD 34.56 billion, whereas the financial debt issued by the Ministry of Finance was USD 46.44 billion.

Tax collection for July. According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VES 1,644.2 billion were collected in taxes for the month of July. In nominal terms this means a 104,205.7% increase compared to the

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same month the previous year. Of this amount, VES 210.0 billion came from Income Tax, and VES 900.6 billion from the VAT.

In real terms. Real total revenue in July of 2019 compared with the same period last year decreased by 78.1%. The VAT decreased 76.7% in real terms and customs revenues also decreased 83.8%. Meanwhile, income tax revenues decreased 55.1% in real terms over the same period of 2018.

Foreign Exchange Desks. For August 15, the average exchange rate at the foreign exchange desks was VES 13.921.5/USD, for a depreciation of 1.1% compared to last week. Nevertheless, the unofficial exchange rate maintains a premium of 5.8%.

OIL TIPS

The fight over Citgo. Reuters reports that, according to Juan Guaidó's allies, the latest measures taken by the US Government will make it possible to negotiate the rescheduling of bonds. This could be crucial for protecting Citgo, which was given as collateral for PDVSA's 2020 bonds.

Protected? "*Today, there is no possibility of losing Citgo*," said Juan Guaidó following the new measures taken by the United States last week. The companies that could have claims on Citgo include the Canadian mining company Crystallex, which has already filed a lawsuit against PDVSA to obtain compensation for the nationalization of its assets.

Outstanding payments. Previously, PDVSA's ad hoc board of directors appointed by Guaidó made a payment of interest on PDVSA's 2020 bond in the sum of USD 71 million. However, the possible nonpayment of USD 913 million in October could put Citgo at risk.

Strategies. Luis Pacheco, a member of this board, commented that "*PDVSA's ad hoc board of directors is designing a strategy to solve the 2020 bond situation, which includes sitting down and negotiating with the bondholders*."

A possible risk? According to the contract, if the USD 913 million are not paid in October, the bondholders could put an embargo on half of Citgo. However, Guaidó's team maintains that this new general license issued by the US Government will allow them to sit down and negotiate again with the bondholders.

Reliant on Russia. The Russian state-owned oil company Rosneft has become Venezuela's biggest supplier of crude, which increases the leverage Russia could have

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in the Venezuelan crisis, according to a report in the Financial Times. The data obtained by the newspaper show that all oil imports in June came from Rosneft.

Suppliers of gasoline. These imports came to 7.1 mb, which were loaded in ship-to-ship transfers carried out offshore near Malta, Gibraltar and Aruba, according to documents seen by the Financial Times. "*Venezuela's gasoline supplies depend on Russia. The day Russia stops supplying gasoline, Venezuela grinds to a halt*," reports the Financial Times.

A big step. Saudi Arabia's state-owned oil company Saudi Aramco is to be the next company to take operating control of 20% of the shares in the refinery and petrochemical company Reliance Industries. This change means a stronger alliance between Saudi Arabia and India, Reliance's country of origin.

Forging stronger alliances. As part of the agreement, Saudi Aramco is to supply Reliance with 500,000 barrels a day (b/d). Both companies clarified that this is only a preliminary agreement to what the definitive agreement will be, which is to be finalized in March 2020, according to senior management at the two companies.

Potential discovered. The oil company Tullow Oil has discovered huge export potential in Guyana. This search was started thanks to previous explorations in the area by the oil company ExxonMobil. Tullow Oil said it hoped to obtain 100 million recoverable barrels of crude.

BUSINESS SECTOR TIPS

A call to a medical "down tools." Workers at *Hospital Clinico Universitario* have called a strike to demand that the Nicolás Maduro regime improve wages and deal with the straightened circumstances in which health workers are living and working.

A somewhat forced "strike." The workers have urged the national labor unions to join them in their demands. They argue that they do not have the medical supplies needed to be able to treat patients and that they do not have uniforms either. They say that they will remain on strike until the State offers health workers decent wages and provides them with "*proper working conditions*."

No bananas or plantains, Part I. Saúl López, the president of the Venezuelan Society of Agricultural Engineers and Like Professions, called on the agencies responsible for phytosanitary risk management to develop warning programs to fight "Panama disease"

(Fusarium Tropical Race 4), which could affect the production of bananas and plantains in Venezuela.

No bananas or plantains, Part II. López stressed that these products are very important for Venezuelans' diet, particularly in the present food crisis, as they account for more than 50% of what people eat. He also said that risk management mechanisms should be activated. "*Preparation, prevention, detection, response and recovery from this disease, an exotic blight that came from Colombia, where they are taking quarantine measures to fight it*," he explained.

Are the cows to blame? Part I. The National Cattlemen's Federation of Venezuela (Fedenaga) issued a press release this Sunday in which it announces that the country's primary sector has been brought to a technical standstill. "*The country is fast losing its herd every day because we are maintaining ourselves by slaughtering animals. Our cost structures can no longer be sustained with our production without having access to a system of financing*," said the press release.

Are the cows to blame? Part II. Fedenaga also said that producers do not have the machinery and optimum spare parts for doing the job, they lack gasoline, and they do not have compressed gas either due to the fact that a 43 kilo cylinder costs USD 20.

Parking lots under attack. More than 50 parking lots in different parts of the country were sanctioned by the National Superintendency for the Defense of Socioeconomic Rights (Sundde) for incurring in imposing conditions, speculation and usury. Sundde announced that the rates set by it would be applied.

Their response: that means they won't be able to survive. The vice president of the National Association of Garage and Parking Lot Owners and Administrators (Anpage), José Rafael Baldó, rejected the sanctions impose by Sundde. He claimed that the new charges established by the agency for the use of parking lots are insufficient to cover operating costs.

A tenth of what they could do. Luigi Pisella, the president of the Venezuelan Footwear and Components Chamber (Cavecal), said that the sector is currently working at between 10% and 15% of its installed capacity, which results in higher costs.

There is no supply without demand. He reminded people that consumption per capita in Venezuela ought to be around 2.14 or 2.20 pairs of shoes per inhabitant per year and that at the moment it is 0.5. He claimed that "*this is the minimum and you can't go lower than that*."

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A morning out of service, Part I. The Caracas Metro announced that La Hoyada, Capitolio and Caño Amarillo stations on Line 1 would not provide a passenger service early in the morning of August 13.

A morning out of service, Part II. According to the announcement, the closing down of these stations was due to a lack of power. In spite of this, the service was restored just after 8:00 a.m.

WORLD ECONOMY TIPS

Marked preferences, Part I. Following the primaries in Argentina that resulted in a victory for Alberto Fernández over Mauricio Macri with 47% of the votes compared to 32%, the Buenos Aires Stock Exchange posted a drop of 37%, one of the biggest in its history.

Marked preferences, Part II. On top of that, the Argentinean peso lost nearly 25% of its value, falling to ARS 60/USD. In response, the Central Bank raised the interest rate to 74% and sold USD 100 million in reserves to avoid the depreciation getting worse.

A difficult customer. US President Donald Trump expressed his dissatisfaction with the current interest rates in the United States compared to those in other countries. He said that because the dollar is stronger, it makes it "*more difficult for our great manufacturers like Caterpillar, Boeing, John Deere, our car companies, and others to compete on a level playing field*."

Everything is staying the same. Mexico's President Andrés López Obrador said that no new mining concessions would be granted during his term in office and that none of the existing concessions would be eliminated. He explained that more concessions were not needed and even that, "*in many cases, they use the concessions for financial speculation*." It is worth noting that Mexico is the main producer of silver and one of the world's biggest producers of copper and gold.

Is there no need for concessions? According to seasonally adjusted data from Mexico's National Statistics and Geography Institute (INEGI), Mexico's mining production increased by 2.5% in June compared to May, although it was down 2.9% compared to June last year.

At least they've set a ceiling. Claudio Borghi, the economic chief of Italy's governing party (Liga), said that the government would not implement a scheduled increase in taxes in 2020, which would raise the deficit to 2.8% of gross domestic product (GDP). However, he did say that other aspects of the budget were in order and also gave assurances that the fiscal deficit would definitely be kept below 3% of GDP.

A financial and monetary overview of China, Part I. Figures published by the People's Bank of China revealed that new loans in local currency (yuan) came to CNY 1.06 trillion, a lower level than in June this year and in July 2018, when they came to CNY 1.66 trillion and CNY 1.45 trillion, respectively.

A financial and monetary overview of China, Part II. What is more, M2 grew by 8.1% in July compared to July last year. This was lower than the growth of 8.5% posted in June and also below the expectations of analysts consulted by Reuters, who had reached a consensus of growth year-on-year of 8.4%.

A financial and monetary overview of China, Part III. In addition, loans in circulation were up by 12.6% compared to last year, but below the figure for June (13%) and analysts' expectations (12.8%). At the moment, China's policy objective is to promote economic growth, hence the pressure being brought by regulators to grant loans. Despite this, growth was curbed by domestic demand, which is restrained, and by trade tensions with the United States, which are affecting its exports.

The boost. Chile's Finance Minister Felipe Larraín said that they are planning to implement an expansive fiscal policy to counteract the effects of the trade war between China and the United States. However, he also commented that they expect the Chilean economy to perform better in this half-year due to investment by the public sector, the approval of outstanding bills, and expectations that the Central Bank will cut the reference interest rate again.

Warnings. According to China's National Bureau of Statistics (NBS), the Producer Price Index (PPI) fell by 0.3% in July compared to July 2018. This is the first annual contraction since August 2016. This indicator serves as a point of reference for the profitability of companies; consequently, this drop, added to the fact that there have been monthly drops in the past two months, seems to indicate that there is a risk that the Chinese economy will experience deflation.

On the right track. According to preliminary figures issued by Japan's Cabinet Office, Japan's GDP grew by at an annualized rate of 1.8% in the second quarter of the year after posting growth of 2.8% in the first quarter. This means that GDP has grown three quarters in a row thanks to the behavior of private consumption –which has gone up three quarters running- and strong investment by business.

Necessary changes. Peru's Central Bank has cut its reference interest rate by 25 basis points to 2.5% after maintaining it unchanged for 16 months. The decision was taken after noting the indicators for private economic activity, which posted a negative performance as a result of the negative shocks on demand. This decision does not necessarily mean there will be further rate cuts, however.

Focusing on change. Sources consulted by Reuters said that the German Government is seeking to abandon fiscal equilibrium in order to issue fresh debt and to be able to finance a costly climate protection package. According to the sources, the challenge consists of achieving a fundamental change in Germany's fiscal policy that would seek to make using debt emission as a financing mechanism the norm so as not to use budget funds.

An agreement is necessary, Part I. Andy Powrie-Smith, the communications director at the European Federation of Pharmaceutical Industries and Associations (EFPIA), said that, although the necessary preparations are being made, the possibility that there will be a "no-deal" Brexit poses the risk that the supply of medicines will be interrupted in the European Union.

An agreement is necessary, Part II. On this issue, the European Medicines Agency (EMA) said that the European Union is prepared for the imminent withdrawal of the United Kingdom from the bloc and has almost completed the authorization of the 400 medicines it is responsible for monitoring.

Or maybe not so much. British Prime Minister Boris Johnson sent an email (to which Reuters had access) to all British government employees saying that his and their priority was to prepare for a "no-deal" Brexit.

A red warning light. The United Kingdom's Office for National Statistics revealed that GDP posted a contraction of 0.2% in the second quarter of the year compared to 1Q2019, driven by a sharp decline in manufacturing. This is the first time that this indicator has contracted since 2012.

Priorities have been set. Britain's Chancellor of the Exchequer Sajid Javid said that the revision of public spending would be delayed in order to allow all government employees to concentrate on preparing for a possible "no-deal" Brexit, scheduled for the end of October.

Waiting for them to comply. President Trump said that China is not fulfilling its part of the agreement since it is not making all the purchases of US agricultural products as

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promised. He added, however, that he hoped the situation would improve in the short term.

To keep them happy. In another statement, President Trump requested Japan's Prime Minister Shinzo Abe to buy US agricultural products for a "huge value" under the bilateral trade agreement signed by the two parties early this month.

POLITICAL TIPS

Neither in Oslo nor in Barbados. Barbados' Ministry of Foreign Affairs issued a bulletin in which it confirmed suspension of the dialog between the Government of Venezuela and the opposition with the assistance of Norway. The bulletin states that Maduro withdrew from the talks with the opposition due to Guaidó's support of the total blockage on assets belonging to the Venezuelan State located in the United States and the secondary sanctions imposed recently.

New "elections," Part I. On August 12, the Constituent National Assembly appointed a commission to set the date of the next parliamentary elections scheduled for 2020. The commission is made up of constituent assembly members María Alejandra Díaz, Francisco Ameliach, and Diosdado Cabello. Cabello was charged with the task of making the announcement.

New "elections," Part II. Cabello said that they would consult "*all organisms regarding when the best time for holding those elections would be*." He went on to say that the date for holding the parliamentary elections would be announced "*in the next few days*."

Making a fresh start? Nicolás Maduro announced changes to his cabinet and the creation of the Ministry of Tourism and Foreign Trade. The ministries where there have been changes are Urban Agriculture, Ecological Mining Development, Women and Gender Equality, University Education, Ecosocialism, and Public Works.

Check, but not checkmate. Via his social media network accounts, Juan Guaidó denounced that the Nicolás Maduro regime planned to dissolve the legitimate National Assembly. "*They are planning to illegally close down the Venezuelan Parliament. That's the reason for the call to elections (…) issued almost irregularly by the Constituent National Assembly*," claimed Guaidó.

Common strategies. The head of parliament added that the governing coalition plans to call parliamentary elections illegally and even to persecute opposition deputies en masse,

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claiming that "*they only call elections when they are going to persecute (someone) or when they are going to lift parliamentary immunities*."

A defensive proposal. In response, Guaidó said that he had not only warned the international community of the Maduro administration's plans, he had also asked Venezuelans to get ready for a political offensive as they have been doing.

No one is "immune." The Supreme Tribunal of Justice approved the strip the following National Assembly deputies of their parliamentary immunity: Juan Pablo García (*Vente Venezuela*), Tomás Guanipa, José Guerra and Rafael Guzmán (the last three members of *Primero Justicia*).

The seven crimes according to the government. In 55 Supreme Tribunal of Justice ruling number, the deputies are accused of "*treason, conspiracy, instigation to insurrection, civilian rebellion, plotting to commit a crime, usurpation of functions, public instigation to disobey the law, and hatred*."

In the United States' crosshairs. The US Department of State issued a statement regarding the lifting of the parliamentary immunity of these four opposition deputies, saying that any attack on the National Assembly is an attack on democracy and that the National Assembly is the only democratic and legitimate institution in Venezuela.

No recess. What is more, Guaidó announced that the National Assembly would not take a recess in view of the recent threats and the deputies having been stripped of their immunity. He said that, even though there is a parliamentary recess according to the Constitution, the Legislature would continue to sit throughout August.

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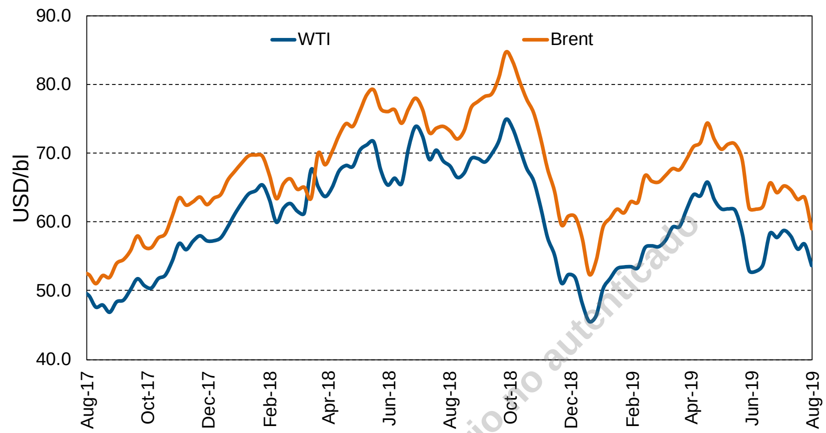
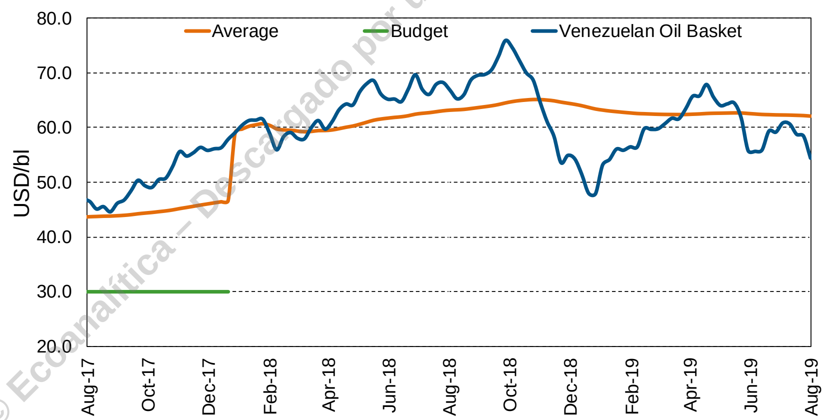
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



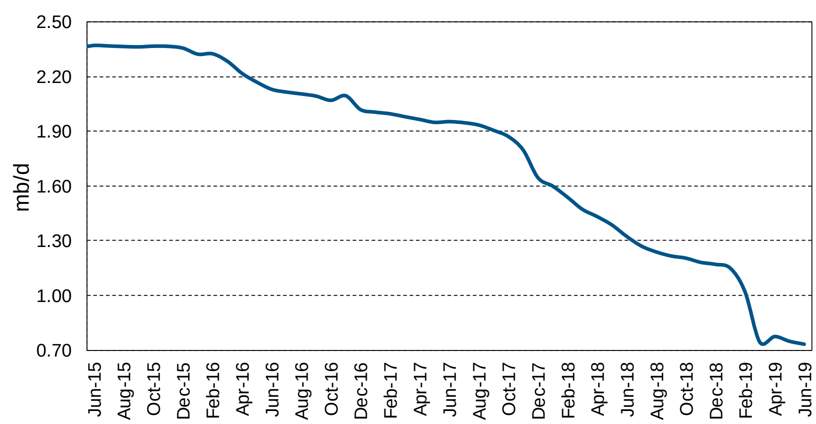
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**



Sources: OPEC and Ecoanalítica

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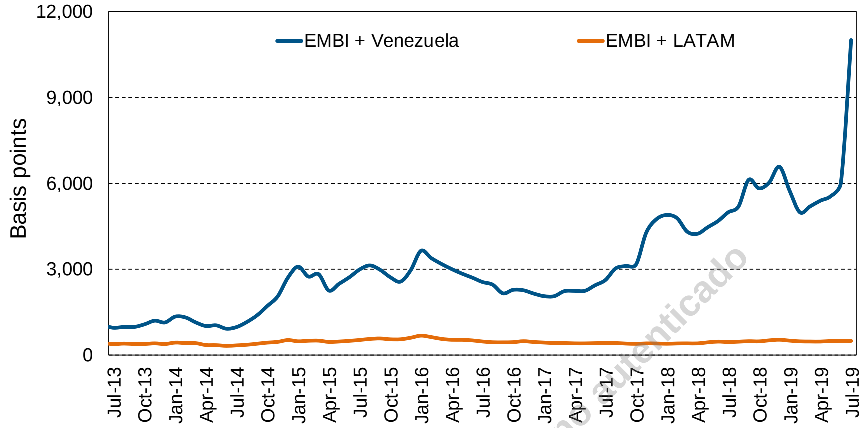
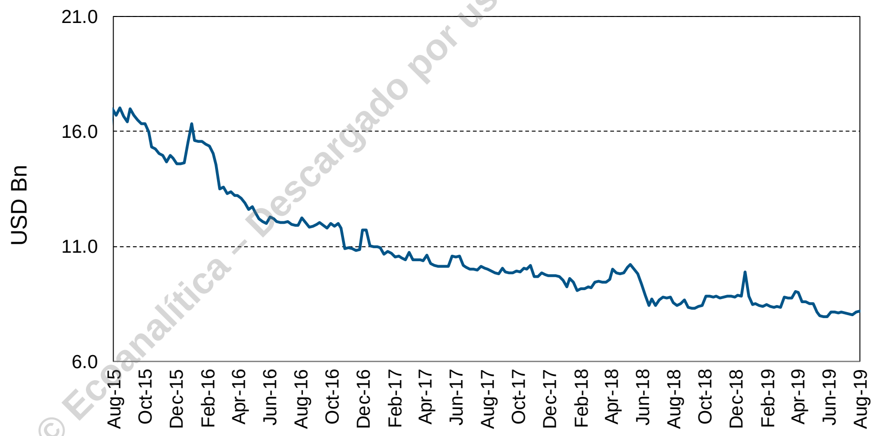
ECONOMIC INDICATORS

EMBI



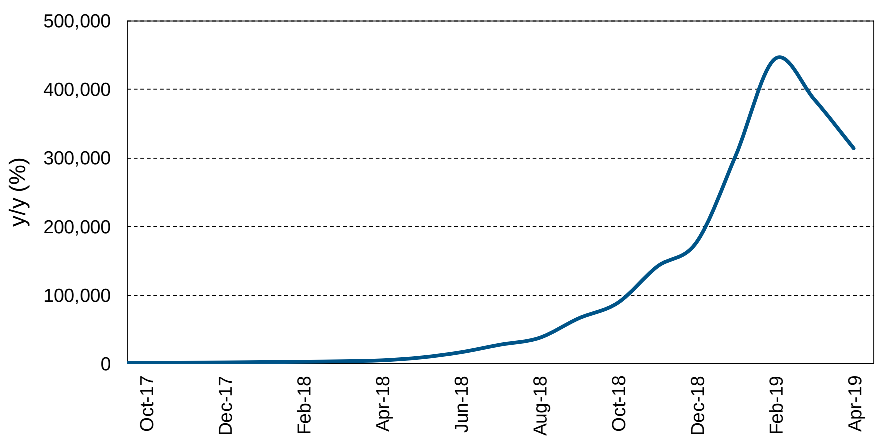
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources:BCV and Ecoanalítica

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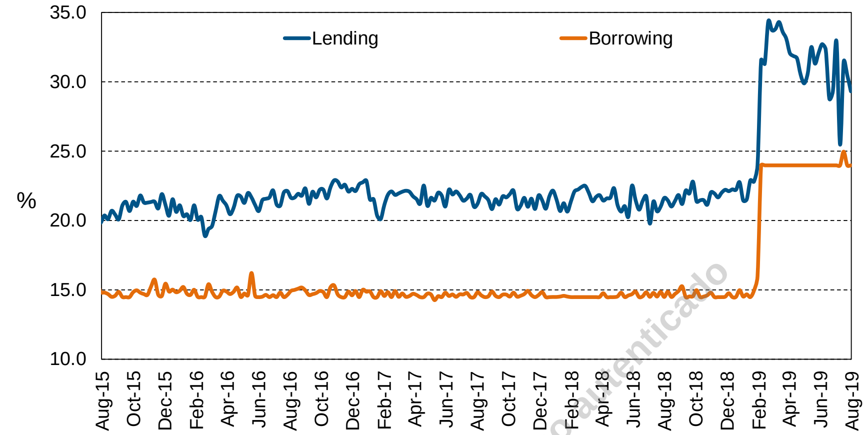
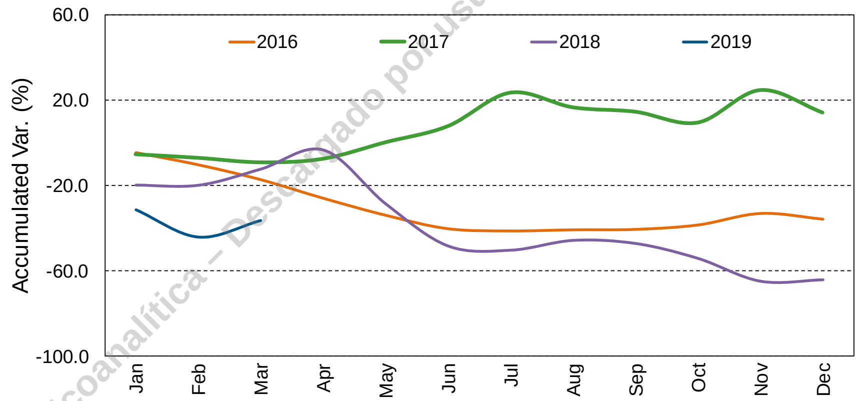
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



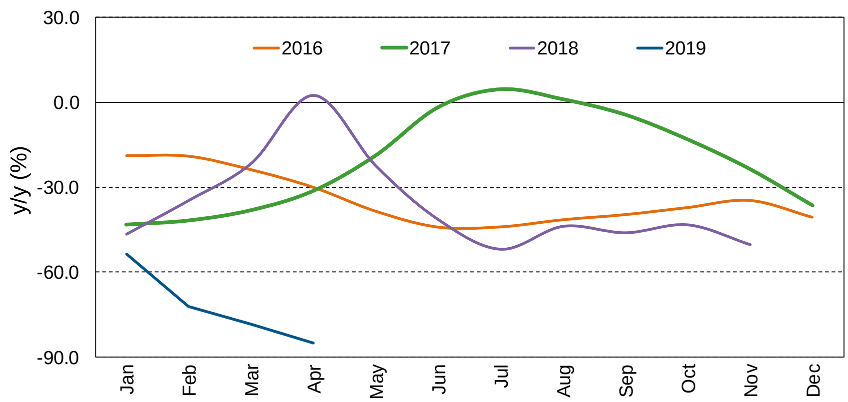
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

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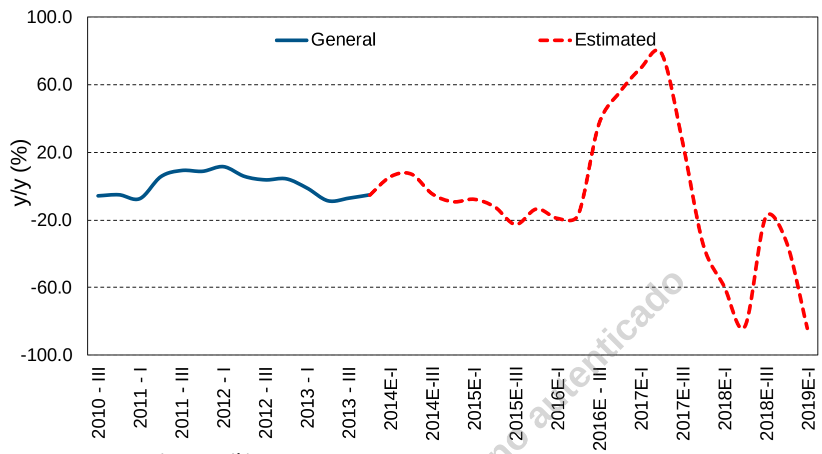
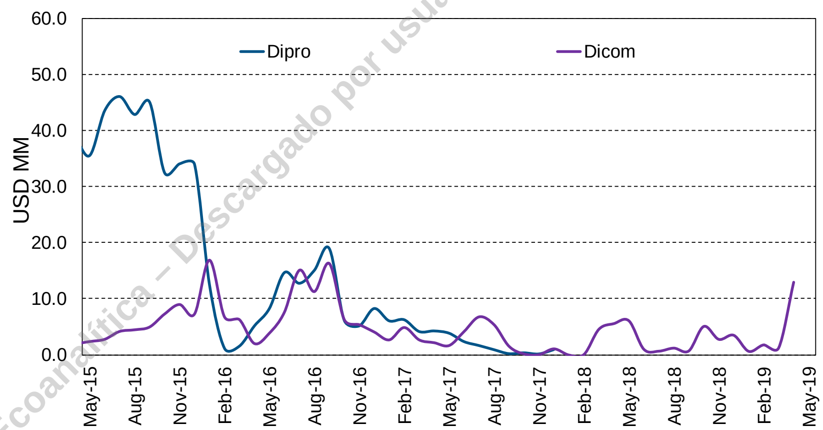
ECONOMIC INDICATORS

Real Wage Index



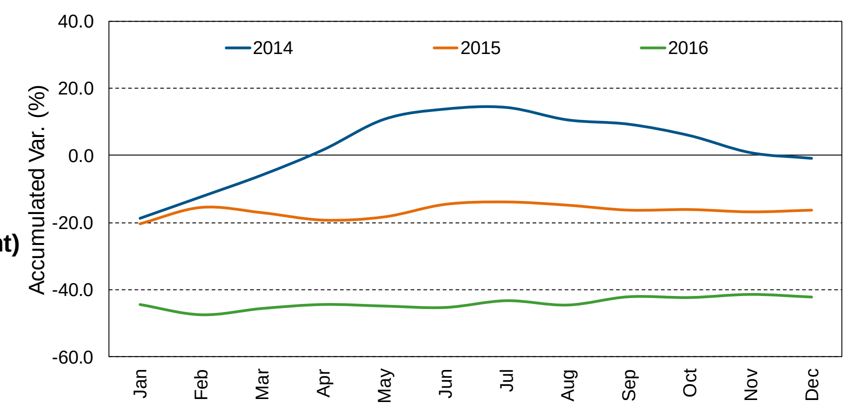
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

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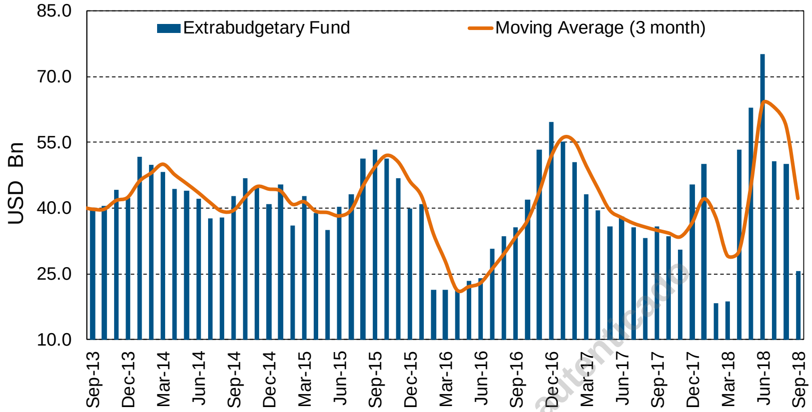
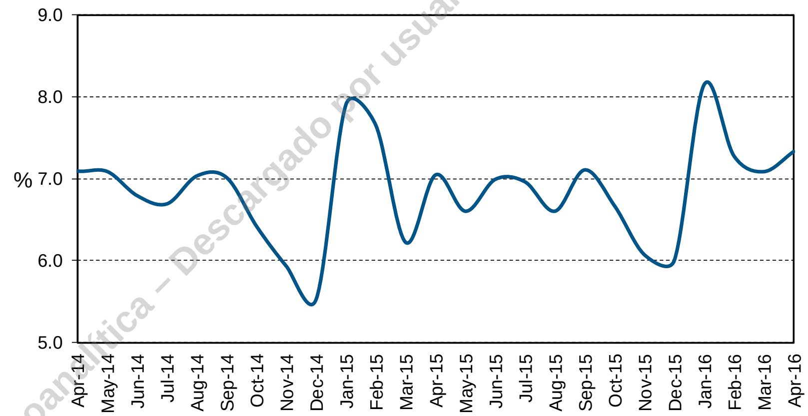
State Extrabudgetary Resources



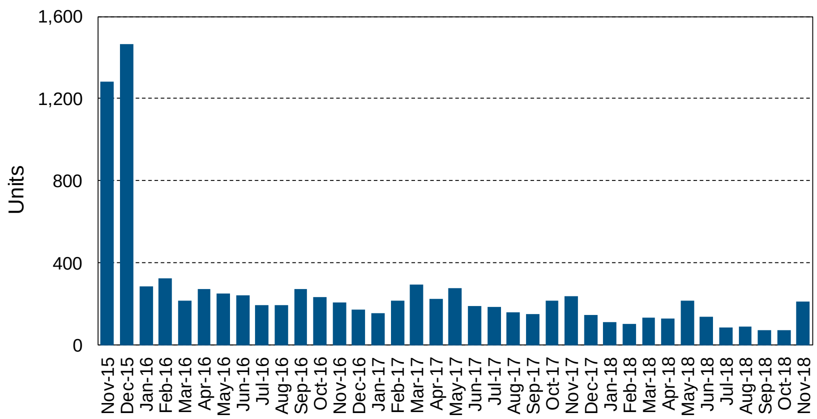
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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