



# Weekly Report

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*The phantom of the electric power crisis appears again...*

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Due to the electric power crisis of 2009-2010, which currently continues affecting the country, Venezuela's demand for electric power has never been able to be satisfied, mainly due to the national electric power network having bottle-necks in the systems responsible for transmission and distribution of electric power, as well as a significant lack of investment in the maintenance and installation of the power grid's equipment. At **Ecoanalítica**, we believe it's important to analyze the different aspects that make up the National Electric Power System (SEN), and look at how the inefficiencies of the electric power sector limit the economic growth of the country.

**What's the current status of the Electric Power Grid?**

In September 2010 (the last official information available), the installed total capacity of the electric power grid was at 24,285 MW, up by 4.0% compared to total capacity in 2009. It's important to point out that most of this increase in MW output is due to the installation of thermoelectric power plants located nearby certain selected industries. These plants have the benefit that they don't depend on the national electric power



transmission grid system; therefore when there is a general power blackout, they are not affected. This also means that these plants do not contribute electric power to the power grid that supplies power to the general public and the main grid that supplies the nation.

Most of these thermoelectric plants are not working at capacity production levels due to an insufficient supply of natural gas. A problem that gets worse every week that goes by. The problem with the supply of natural gas is due to the fact that none of the natural gas projects aimed at improving distribution, extraction and production of natural gas associated with crude oil extraction is moving forward. It's been estimated that Venezuela needs 100,000 barrels of diesel a day in order to keep the thermoelectric plants working once they all become operational.

The National Electric Power Corporation (CORPOELEC), the state-run company responsible for managing all national electric power generating companies, admitted towards the end of 2008 that 79% of the thermoelectric power stations were more than 20 years old and that 30% of them were not operational due to technical and other problems. So, despite the fact that the "installed" electric power generation capacity of all these plants equals 9,051 MW of power, the "real" amount of electric power they were generating was at around 3,800 MW. The same thing happened in 2010, when the "installed" capacity was at around 24,285 MW, but the "real" electric power generating capacity of the system was at around 14,200 MW, which left a deficit of around 10,000 MW. This is due to the limitations imposed by the current electric power transmission and distribution infrastructure that exists in Venezuela, where hydroelectric power generation infrastructure represents 61% of the total system and thermoelectric power generation 39%.





Power in (MW) and (%)				
Company	Installed	Available	Deficit	%
<b>CADAFE</b>	5,156	1,388	-3,768	-37.7
<b>EDC</b>	2,140	538	-1,602	-16.0
<b>ENELVEN</b>	1,940	1,089	-851	-8.5
<b>EDELCA</b>	13,977	10,673	-3,304	-33.0
<b>ENELBAR</b>	250	193	-57	-0.6
<b>ELEVAL</b>	202	141	-61	-0.6
<b>SENECA</b>	476	247	-229	-2.3
<b>ENELCO</b>	144	30	-114	-1.1
<b>Total</b>	24,285	14,299	-9,986	100.0

Sources: Opsis and Ecoanalítica

### What has been done so far?

The Administration created a number of parallel funds aimed at increasing investments in key sectors such as the electric power sector, but in 6 years, with these funds managing over US\$77.70 billion in resources, only 9% of those resources were ever earmarked for the electric power sector.

Through the Fund for Economic and Social Development (Fondespa), the Fund for National Development, (Fonden), and the Heavy Chinese Fund US\$7.30 billion were earmarked for the electric power sector. These resources were used on electric power plants, electric power transmission systems, and equipment. Notwithstanding, the Venezuela's electric power system is going through another crisis that has forced the Administration to once again issue energy saving measures in an attempt to ration to use of electric power.

### What happened to investments?

In a statement issued by the Ministry of Planning and Finance in April 2011, it pointed out that US\$ 5.50 billion were invested in the electric power sector in 2010. However, upon further inspection of data released by the Ministry regarding the main mechanisms responsible for dispersing said investment (FONDEN and China Fund), during the last fiscal cycle, only US\$2.60 billion in resources had been used. Furthermore, government officials released information stating that in 2010, around 5,000 MW were installed in the system, when in fact only 1,250 MW were added to the electric power system. What is a fact, and painfully clear, is the inability to efficiently distribute the electric power that is being generated and the inefficiency of the current structure with respect to meeting goals, which in turn force electric power to be rationed.



Also, last year PDVSA contributed US\$3.40 billion to the electric power sector, one of the highest amounts ever contributed within the framework of social contributions, and the highest disbursed last year representing over 17% of total social contributions made by the state-run oil company. However, many of the projects have been delayed due to financial problems in the sector. Just between 2008 and 2010, Corpoelec has accumulated debt with PDVSA to the tune of US\$5.0 billion, of which PDVSA has recovered 20% thanks to FONDEN transfers.

### **Altering production dynamics**

The ever increasing power outages that have been occurring nationwide are affecting the country's industrial output. It's impossible for an industry to maintain any kind of a production line and meet production quotas without a reliable power source. Data released by Conindustria show that at least 58% of its members are being affected by the power outages and the instability of the SEN.

It's also important to point out that these electric power outages seriously affect PDVSA's refining capabilities, with the Paraguaná Refining Complex (the largest in Venezuela and one of the largest in the world) being the installation most affected. During the month of May 2011, the Amuay refinery was partially shut down due to an electric power outage which started a fire in one of the catalytic cracking units; plus the pump system of some of the units were affected which in turn affected plant operations. Fully operational, the plant has the capacity to process 645,000 barrels a day, which is equal to Venezuela's daily fuel consumption nationwide.

The instability of the SEN has also severely affected the Guayana industrial complex. A power outage during the first week in the month of August caused by a transformer blowing out at the Guayana B substation left both Sidor (steel) and Venalum (aluminum) companies without power. All the steel companies have been specially plagued by the power outages which has severely affected production during these past two years.

### **And the increase in demand doesn't help the situation**

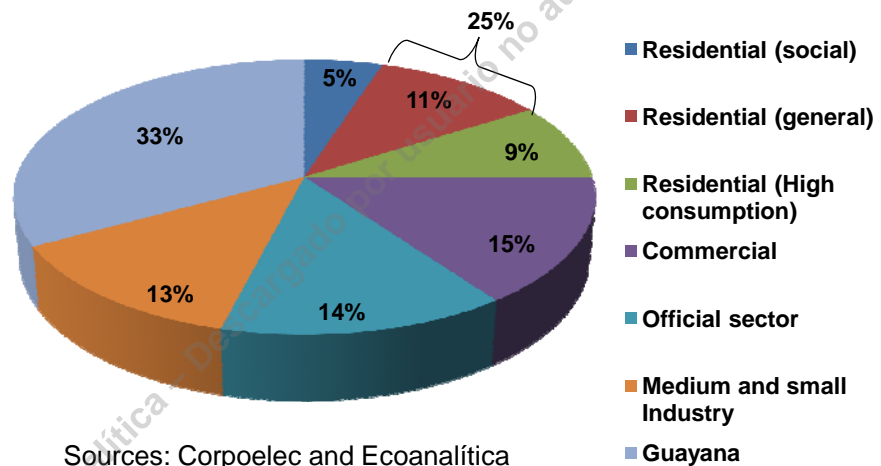
Since the beginning of 2011, the slight increase in the demand for power has once again pushed the SEN's electric power generation limits to the brink, with service fluctuating from day to day. Electric power rationing has become especially severe in the states of Falcón, Sucre, Nueva Esparta, and Yaracuy. During the beginning of April, high temperatures pushed demand over 15,000 MW, reaching 16,620 MW. Rationing had to be implemented two and up to three times a day.





The months with the highest demand for power are yet to come (September and October). The Administration has already put in place measures that it hopes will lower power consumption levels. The demand for power in the city of Caracas during its peak hours is at 2,200 MW and the thermoelectric plant that supplies power to the city is only generating 1,700 MW.

**Participation of sectors in Power Consumption  
September 2010**



Sources: Corpoelec and Ecoanalítica

### Electricity rates not an incentive to save on power

The problems with billing, collecting, and power outages generate losses for power companies. Corpoelec and all its subsidiaries posted losses for 38.7% at the close of 2010, with just the Electricidad de Caracas (EDC) posting 20% in losses. Before it was nationalized, losses never went over 10%. When talking about power losses, one refers to the difference between the available electric power that enters the transmission or distribution system and that which is billed to the customer. States with the highest percentage of losses are: Anzoátegui (59%), Bolívar (50%), and Miranda at around 30%. Official figures point to around 1,200,000 users which are not registered to any of the electric power companies managed by Corpoelec and 2,800,000 users that don't have electric meters. The figure that doesn't appear in any official statement is the number of users that are connected illegally.

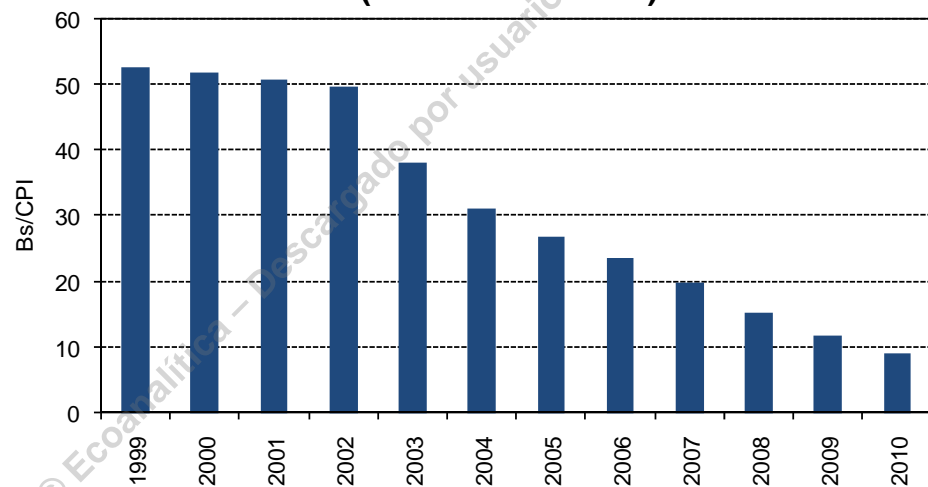
One of the main problems facing the electric power sector is how out-of-touch from reality the cost of electricity is. The price has been frozen since 2005, and it is the main reason electric companies have been losing



money over the years. This loss of revenue has led to companies becoming progressively deeper and deeper in debt and delays in the payment of payroll. And when Ministries, Mayor's and Governor's departments delay in paying salaries, this affects how well the service is offered.

The following graph reflects the relation between the value of the cost of electricity with the increase in the Consumer Price Index (CPI). One can see how the disparity increases over the years due to inflation and rates remaining the same.

**Evolution of Electric Rates  
(BASE 2007 = 100)**



Sources: G.O, BCV and Ecoanalítica

This is one of the reasons that the Administration decided to introduce a decree that sets discounts and/or penalties with regard to a person's electric bill depending on how well one saves energy or not. If a consumer can't reduce their use of electricity by 10% then they will have to pay a 75% fine over the amount of the bill every month. At **Ecoanalítica**, we consider it would be more effective to create incentives via discounts for those who reduce their energy consumption rather than penalizing those who don't comply.

**Where will economic growth end up?**

We also think that it is imperative to have a stable and reliable, dynamic and diverse energy supply in order to be able to guarantee economic activity and thereby stimulate economic growth. This is why we believe that the State should allow the private sector to participate in the investment of certain sectors of the nation's strategic energy system in



order to guarantee the production and distribution of electric power throughout the nation.

Power outages due to a lack of investment in maintenance and having to ration electric power have caused the production levels of certain sectors to drop, clearly demonstrated by 2010 yearend figures. As things stand, it looks like 2011 may be headed down the same path, though slightly less severe, if policies aren't changed to solve the crisis.

If we take into consideration the sectors that are affected we are looking at almost 70% of GDP, so obviously the impact is very important and significant. At **Ecoanalítica**, we estimate that the negative impact that the electric power crisis is having on the economy could cause it to drop between 0.5 and 1.0 percentage point of economic growth this year, especially if investment goals set for this year do not reach 50% and the incentives to get people to ration the use of electricity don't work. So, the Administration's recent announcement stating that this year's economic growth rate would be 5.0% could suffer and drop to 3.5% if the crisis continues and/or gets worse.

### Change of culture or change of policy?

As a result of the electric power crisis, the Administration decided to introduce the Law for the Rational and Efficient use of Energy aimed at lowering the yearly use of primary energy in absolute terms, with the State responsible for coordinating a plan focused on rationalizing the use of electric power, on a permanent basis, and which must be flowed by public and private institutions.

Currently there are three main objectives in the restructuring of the SEN: get past the crisis, integrate the fourteen companies, and consolidate the Ministry of Electric Power. Besides this, enhance and improve the electric power transmission and distribution networks as well as promote new sources of alternative energy able to fuel sustainable development in Venezuela.

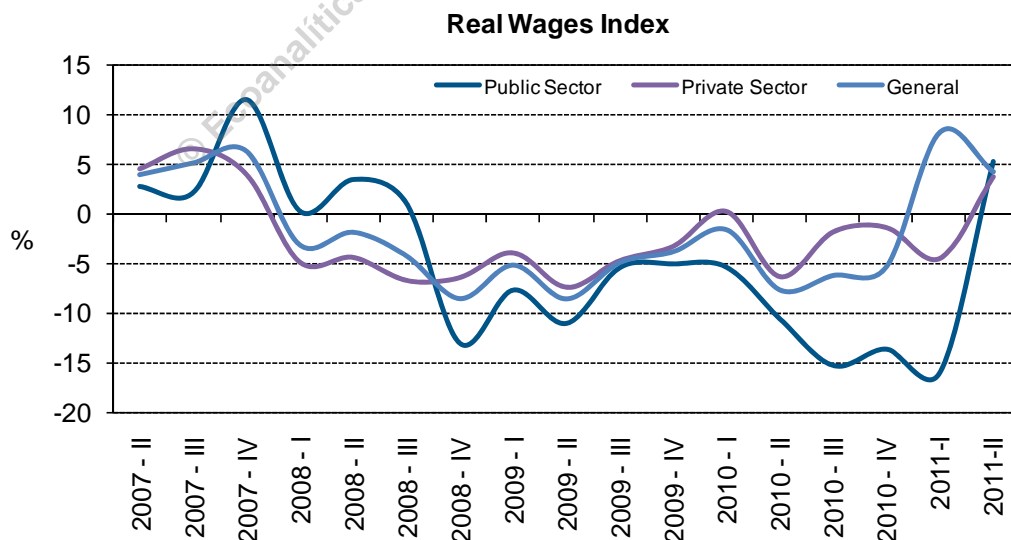
At **Ecoanalítica**, we believe that the solution to overcome the crisis by restricting consumption is not the way to go since this will undoubtedly have a negative effect on economic growth. Because, as the population grows, demand grows, and this leads to production increasing which in turn requires more power. To restrict any of the variables in this chain of events is to stunt economic growth, and this can never be the objective, especially in a country which has the largest reserves in the world of the most versatile source of energy on the planet: oil.



## Economic Tips

**Supplemental Appropriations skyrocketing.** Budget deficits and labor obligations are leading to accelerated out-of-budget spending increases. So far this year, the National Assembly has approved double the amount of supplemental appropriations as it did last year at this time. According to figures released by the Parliament Finance Committee, since the month of February and up until now, VEB 63.0 billion in supplemental appropriations have been authorized, up by 96% compared to the amount authorized during the same period in 2010 (VEB 31.2 billion).

**Salaries crumbling away.** The Salary Index reflected an increase of 24.4% in nominal terms during the first semester 2011 compared to the same period in 2010. In real terms, this is equal to a 1.9% drop. Looking closer at this figure, the private sector increased salaries by 26.3% in nominal terms, which is equal to a 0.4% drop in real terms, while the public sector increased by just 20.1% in nominal terms, equaling a drop of 5.2% in real terms.



Sources: BCV and Ecoanalítica

**Have to get inflation down to single digits!** The president of the Central Bank of Venezuela (BCV) is convinced that economic growth this year will surpass the Administration's initial estimates, with first semester growth figures posting at 4.5%.



He continued to say that the economy's main weakness was inflation and that in three years, at most, inflation should be down to single digits.

**Social investment falling.** According to figures released by the Integrated System of Social Indicators of Venezuela (Sisov), social investments made by the Administration have dropped by 35% in real terms from peak volumes invested in 2006, when social investment reached VEB 1.16 billion. Despite the 80% nominal increase in resources earmarked for social projects such as: housing, health, education, and social security; during the last five years this hasn't been enough to compensate the weight of inflation on the local currency.

**New mechanism multiplies Ministries resources.** New contributions by the banking system and other companies from the private sector look to collect at least US\$1.91 billion by the end of the year in order to finance projects proposed by the communal councils, promote sports, health, science and technology. Add to this figure the amount coming from the windfall tax applied to oil companies, which up to the moment have generated US\$5.85 billion in revenue.

**Denied adjustment to be made to the SITME.** The director of the BCV, Armando León, denied any statements made alluding to the fact that the Central Bank was planning to make an adjustment to the SITME's exchange rate which is currently at VEB 5.30/US\$, the rate it has been at since it began to operate in June 2010.

**Intermediate consumers to be protected.** The president of the National Assembly Finance Committee, Ricardo Sanguino, explained that the new Fair Costs and Prices Law will not only benefit the final consumer of products but that it would also protect intermediate consumers (those who buy products to then commercialize them). Sanguino explained that this law will establish a balance between production costs and sale price.

**Interest rates.** The lending rate for the fifth week in July was at 18.45%, decreasing by 0.45 percentage points compared to the previous week. The time deposit rate also decreased by 0.07 perceptual points to reach 14.50%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.61%.

**International reserves.** International reserves increased 0.7% going from US\$29,020 million during the fifth week in July to US\$29,214 million during the first week in August. Compared to the same period last year, international reserves have decreased by 4.0%.





**Monetary liquidity.** Monetary liquidity in the fifth week in July creased 2.68% compared to the previous week settling at VEB 353.765 million. The M2 has increased 38% year-on-year.

**Sitme figures.** So far this year, US\$4,889 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day, with an implicit exchange rate of 5,3 VEB/US\$. During the first week of August the amount traded reached US\$140.3 million, US\$47.6 million less than last week when US\$187.9 million were traded.

## Oil Tips

**Oil price down as markets show pessimism.** The shadow invading economies worldwide has affected the main exchange indexes as well as oil prices, which have lost between US\$10 and US\$15 per barrel over a period of 10 days, including the Venezuelan oil basket, which could lose nearly 10% of its value this week. The signs of weakness in the economic activity of the United States, Europe and Asia, and their possible effects on the global oil demand, had a negative impact on oil prices last week.

**The impact won't be significant.** As to the fear for a greater fall in crude oil prices, Barclays Capital analysts claim the composition and behavior of the oil market demand is significantly different to that of 2008. *“While the demand of developed countries (OCDE) fell by 1.7 mb/d in 2008, this year’s fall projection is for 0.5 mb/d. But what really supports the market is the rate of demand growth in emerging markets (led by China). In 2008, the participation of these countries in the global demand was 44%, and it’s expected to reach 50% this year. The supply is compromised with the crisis in mid-eastern producing nations. This is why oil baskets are expected to average between US\$90 and US\$100/bl this year.”*

**Pdvsa payroll increases as production decreases.** Pdvsa’s reports reveal that in five years, the oil industry’s payroll grew by 89.0%, while the crude oil extraction fell by 8%. The state-owned company went from 16 workers per barrel extracted to 36. Although this payroll growth includes staff incorporated in development projects for future extraction in the Orinoco Oil Belt, the exponential increase of Pdvsa’s payroll has not come with an improvement in production. Likewise, the growth of contracted



payrolls was a response to highest maintenance activity in operational areas in the last quarter of 2010.

**Pdvsa keeps shipping oil to China.** The rapprochement between Venezuela and China includes the Asian giant's interest for ensuring commodity and energy supplies for its ever increasing economy. As part of the payment agreements for crude oil contemplated in the Chinese Fund, Venezuela is now shipping nearly 350,000 bl/d of crude oil and byproducts, said Eulogio del Pinio, vice president of Exploration and Production for Pdvsa.

**Goal of oil shipments to China.** The goal of oil shipments to China by 2015 is one million barrels per day. By then, the Venezuelan oil production should reach 4.15 million barrels per day, according to the Plan Siembra Petrolera.

**Barrels for Iran, Belarus and Portugal.** Pdvsa's 2010 annual management report indicated that, among the agreements for the supply of oil and other byproducts was included the supply to these three nations for 88,000 bl/d of crude oil and byproducts, without details for each destination. It's important to point out the significant increase of volumes supplied to Portugal, Iran and Belarus last year compared to the years 2008 and 2009, when the shipments reached 5,000 bl/d.

**Foreign oil partners focus on the Orinoco Oil Belt and natural gas.** The development of the Orinoco Oil Belt and natural gas deposits are some of the most ambitious projects for Pdvsa's international partners who, despite the difficult business environment they need to deal with, don't want to lose the opportunity to participate in the development and exploitation of the immense reserves of Venezuelan hydrocarbons.

**Natural gas discovery.** Project Rafael Urdaneta, which contemplates gas exploitation in the Gulf of Venezuela, in front of the coast of Paraguana, proposes to produce one billion cubic feet of natural gas per day. For the Italian oil company ENI, and especially for the Spanish company Repsol, the drilling of the well Perla in block Cardon IV represents one of the most significant natural gas deposit discoveries in their history.

**Chinese oil companies assume positions in the Orinoco Oil Belt.** The Chinese company Sinopec will develop blocks Junin 1 and 8 along with Pdvsa to extract up to 200,000 bl/d of extra heavy crude oil from each, while China National Petroleum (CNPC) will work on block Junin 4, expected to produce up to 400,000 bl/d of extra heavy crude oil.





**Chevron remains optimistic about making business in Venezuela.** The Californian oil company will participate with 34% or 134,000 bl/d in Petroindependencia, a mixed-capital company which will produce 400,000 bl/d. When this project is in full operation, it will represent 20.8% of Chevron's global operations, which reached 1.92 million bl/d in 2010.

**International oil baskets.** At closing time on August 05 in the New York Exchange, the price of the WTI was US\$92.59/bl, a 6.2% decrease compared to the US\$98.7 reported the previous week. The Brent decreased by 3.3% to reach US\$114.1/bl, compared to the previous week's US\$117.94/bl.

**Local oil basket price.** The Venezuelan oil basket price decreased last week, closing at US\$103.45/bl on Friday August 05, a 4.7% contraction compared to the US\$107.84/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$98.96/bl.

## Business Sector Tips

**Vehicle production down in July.** According to the Venezuelan Automotive Chamber (Cavenez), between January and July of 2011, the national production of cars contracted by 1.3% compared to the same period of 2010. During the first seven months of 2011, 59,912 cars were assembled, 806 less units than in the same period of 2010. After three years of contraction, the industry was aiming at a 10% growth, but the data still show stagnation. The delay in the issuance of import licenses for assembling materials and the increasing labor conflicts are two of the main obstacles affecting the sector.

**Automotive market keeps falling.** Between January and July of 2011, 67,359 new cars were sold in Venezuela, 4.1% less than the 70,251 sold during the same period of 2010, according to the Venezuelan Automotive Chamber (Cavenez). Comparing July 2011 with July 2010, there has been a 10.8% contraction, going from 11,579 units sold to only 10,325.

**CAN remains expectant.** The Andean Community (CAN) hasn't lost hope of Venezuela returning to the sub-regional block and Mexico and Panama incorporating as observers to Latin America's oldest integration process, said its Secretary



General, Adalid Contreras. *“We have not lost hope of having Venezuela return to the Andean Community, as it is part of the CAN,”* Contreras said.

**More taxes for companies.** Along with the regulation of profit margins implied in the Law of Costs and Fair Prices, companies will also have to face new tax burdens with the approval of the Law of Sports and the Locti.

**Food import licenses subjected to “appropriate prices.”** The Venezuelan government grants import licenses to companies importing food at appropriate prices, according to official standards, said the minister of nutrition, Carlos Osorio.

**Dairy sector costs are unreal.** During a Mercal operative in Petare on July 6, minister of Nutrition, Carlos Osorio, said dairy sector industries, grouped in the Dairy Industry Chamber (Cavilac), and the Venezuelan Chamber of the Food Industry (Cavidea), were only thinking about profit, so they referred to cost structures that are not adjusted to reality.

**Venezuelan government to import coffee from Nicaragua.** A Venezuelan commercial mission integrated by representatives of the Venezuelan Coffee Corporation will visit Nicaragua this week looking to strengthen their businesses in that country. The Venezuelan delegation looks to widen the levels of cooperation in terms of volumes and quality of the coffee exported from Nicaragua to Venezuela, said the Government of Managua in a press release published in the government newspaper El 19.

**Second round of registration for Great Housing Mission is over.** Families living in the states of Aragua, Carabobo, Lara, Merida, Táchira, Trujillo and Yaracuy had a chance to register in the Great Housing Mission Venezuela until August 7, 2011, a cycle in which 975,241 families were included in the database. The third wave of registration will begin in September.

**Housing entity to grant funds for mortgage loans.** The Ministry of Housing made some more changes to the mortgage loan regime, indicating in a new norm that the Higher Housing entity would provide funds for home mortgage loans.

**Tenancy law to set home prices.** The reform to the Tenancy Law, in discussion at the Parliament, expands its scope of application and will not only control rent, but also proposes to set home prices.

**Landlords will need to guarantee utilities to their tenants.** The modification to the Tenancy Law indicates that landlords will now be obligated to guarantee their tenants the availability of basic utilities, as well as maintaining properties in good conditions.



**Rent amounts to be reviewed every three years.** The National Assembly's Administration and Services' Commission moved forward in the modification of the Tenancy Law, and the approved motions referred to rent payments and the obligation of construction companies in the tenancy market. The provisions authorized yesterday indicate rent amounts or monthly payments will now be reviewed every three years.

**New tax for vacant homes.** The reform to the Tenancy Law, currently under review by the National Assembly, contemplates a tax for vacant homes. According to the text, if the housing unit is uninhabited, the landlord will need to pay this tax, and once the unit is rented out, owners will no longer be required to pay such duty.

**Workers of the Ministry of Finance protested for delays in labor payments.** Workers of the Ministry of Finance recently protested for Minister Jorge Giordani's incomppliance with the collective labor agreement. Lourdes Machado, representative of the Ministry of Finance Workers' Union said the authorities were delayed in the payment of some contractual benefits.

**Planta centro in full operation by 2012.** Units two and five of the thermoelectric plant Planta Centro, located in Carabobo state, are expected to be fully operative by next year. Planta Centro currently generates 950 megawatts for the National Interconnected System. This contribution depends on the generation of machines one, three and four.

**Workers' Union shut down Toyota's production in Sucre.** The company's union took this measure in response to a decision made by a labor court last Friday, releasing the company from paying labor benefits claimed by a group of workers. On Monday, the union put a hold on the assembly rate and prevented the dispatch of vehicles.

**Sudeban orders cease of operations to Inapymi's lessor.** The superintendent of banks, Edgar Hernandez Behrens, issues a resolution ordering the cease of operations of Anfico, the lessor working under the administration of the Institute for the Development of the Small and Midsized Industry (Inapymi). Hernandez Behrens granted a period of 90 continuous days to "finish all operations" and prohibited any kind of transaction starting July 29.





## World Economy Tips

**Deadline due.** On August 2, US President Barack Obama signed a law to reduce the fiscal deficit by US\$2.1 trillion over the next 10 years. But that number was not close to the US\$4 budget cuts Standard & Poor's (S&P) believes are necessary to fix the US economy. Concerns that the Congress is not facing the Government's budget deficit properly, which this year is close to US\$1.4 trillion or nearly 9.0% of the US GDP (one of the highest since World War II), caused a downgrade to United States' debt rating.

**US debt is no longer triple A.** On Friday, August 5, S&P downgraded the United States' debt rating by one step (from "AAA" to "AA+"), due to concerns over the nation's increasing budget deficit and debt burden. *"The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics,"* S&P said in a statement.

**Downgrade implications.** US Treasury bonds, viewed worldwide as the undisputable asset refuge are now rated below the securities issued by countries such as Great Britain, Germany, France or Canada. The impact of S&P's decision was softened by Moody's so far maintaining the United States debt rating at "AAA." Fitch Ratings said they were still evaluating their rating and would issue an opinion at the end of this month.

**Cost of debt might go up.** With time, the budget cut might add up to 0.7 percentage points to the yield of American bonds, thus increasing the cost of financing the public debt at US\$100 billion, according to the asset trading group Sifma.

**Wall Street attempts FED proposals to ease markets.** Shares suffered a massive decline on Monday, August 8, the first session after the US lost its maximum debt rating of AAA and the S&P 500 index reported its worst loss in one day since December of 2008. US shares were strongly rising on Tuesday, August 9 after the sinking of the previous session, but the trend might get reverted if investors are not convinced that the Federal Reserve has a plan to fight the turbulence related to the fears of a new recession.

**Gold registers record figures.** The metal gained 8% this month, boosted by the flow of funds coming from shares, bonds and foreign currencies, after the United



States lost its highest credit rating. The sustained increase of three consecutive days is the highest for this metal since the financial crisis of 2008. Gold reached a record price of US\$1,178/ounce troy last Tuesday, February 9.

**European shares in positive after Wall Street opened up.** European shares entered positive ground on Tuesday, August 9, as investors started buying oversold shares and Wall Street opened in blue. The market waits for the US Federal Reserve to issue a

**ECB purchased Italian and Spanish debts.** The profitability of the 10-year Italian bond decreased by 20 basis points to reach 5.1% while its Spanish equivalent yielded 18 basis points to reach 5.0%. The European Central Bank (ECB) keeps buying Italian and Spanish debt certificates in the secondary market in an attempt to bring the costs of financing these two nations to more sustainable levels.

**Swiss franc and yen scaled as US debt rating was downgraded.** The stampede toward the Swiss franc, the yen, US Treasury bonds, gold and other refuge assets highlighted the fears that have taken over investors. The Swiss franc and the yen both gained value last Monday, due to fears related to the debt problems in the United States and Europe, generating a new wave of safe asset purchases.

**China remains vigilant.** China, first holder of US treasury bonds, now has all the right to demand the United States to solve its debt problems to guarantee the structural safety of its assets in US dollars.

**China could withdraw part of the US debt.** The Chinese government is now trying to diversify its investments abroad, although investing in US Treasury Bonds seems, in many ways, to be the least harmful option.

**Latin American exchange markets in negative grounds.** Latin America's main exchange markets closed low last Monday due to global market concerns. Some showed significant falls indicating the fear invading investors about S&P's decision to downgrade the US debt rating. The main falls occurred in Argentina, Brazil, Chile, Colombia and Peru.

**Brazil, Mexico and Colombia are the most exposed to US bonds.** These Latin American countries are the most exposed to US Treasury Bonds. With the loss of its AAA rating, the highest in the scale, the United States formally became a riskier debtor. Brazil is the Latin American country holding the highest number of American Treasury instruments, and fourth worldwide, right behind China, Japan and the United Kingdom.



**Mercosur Central Banks: Inflation has moderated.** The inflation expected in several countries for the last few months has tended to moderate as a result of the gradual withdrawal of the monetary stimulus in several economies, a slower rate of growth in the world's economy and less pressures over international prices, so was reported in the latest meeting of central banks of Mercosur member countries: Bolivia, Chile and Peru.

## Political Tips

**Chavez answers Proust questionnaire.** During an interview with journalist Jose Vicente Rangel, recorded at the Venezuelan Military Academy, President Chavez answered the Proust questionnaire to determine people's personality profile.

**Chavez starts second stage of chemotherapy.** President Hugo Chavez is now in Cuba to receive a second cycle of chemotherapy sessions to treat a cancer diagnosed last June, an official statement announced last Sunday.

**President calls for unity within the National Armed Force.** On Thursday, President Hugo Chavez called for unity within the National Armed Force (FAN), in light of the alleged attacks of the "*oligarchy*" which pretend to destabilize the nation and "*always look for military figures*" for its own purposes.

**They shall not return.** President Hugo Chavez assured the opposition would "*never again rule this nation, only local spaces,*" regarding the electoral process of 2012, mentioned during his interview with journalist Jose Vicente Rangel and broadcasted on Televen.

**New minister to be sworn in.** on July 6, President Hugo Chavez said the nation's prisons should become "*centers to form new men,*" socialist formation cells. Such a statement was issued during the swearing in of Iris Varela as minister of the People's Power for Penitentiary Services, and Brigade General Jose Adelino Ornella as Commander of the President's Honor Guard.

**Illness and new insular state are only a distraction.** The Governor of Nueva Esparta, Morel Rodriguez Avila, rejected the creation of the insular territory of Miranda, as, in his opinion, the existing states are facing serious problems that are not being solved by the Administration. "*We hope the President doesn't continue to*



*distract the national opinion with his illness, and now with this creation, because we have much more important problems to take care of.”*

**According to CISXXI, Chavez’s popularity increases.** President Chavez’s health crisis does not affect people’s perception of his capacity to exercise power. According to GISXXI, 56% of Venezuelan citizens consider he should remain in office, while 39% think he should yield power to Vice president, Elias Jaua.

**More than 50% of citizens think the Government has had a positive performance.** As to Hugo Chavez’s performance, GIS XXI assures 58% of respondents think it’s been “*good or very good.*” Cross-referencing this data by social class, the positive rating reaches 66% in the E segment of the population, and 60% in the D group.

**Demanding information about electoral calendar.** Integrants of the civil organization Sumate appeared last August 4 before the National Electoral Council (CNE) to ratify their demands for information about the dates in which the election of 2012 will be celebrated.

**Venezuela benefited in Exxon and Cemex arbitrations.** Although an official decision hasn’t been announced yet by the International Center for Settlement of Investment Disputes on the arbitrations against Venezuela, magistrate Luisa Estella Morales, president of the Supreme Court of Justice, said recently that the nation had already come out “*on top*” in the arbitration procedures presented by Exxon Mobil, Cemex and Nova Scotia Power.

**Finally, or so it seems.** Having solved its internal conflict, Un Nuevo Tiempo will shortly present its candidate for the primary election of February 12, 2012, Zulia Governor, Pablo Perez.

**Demanding resignation of economic cabinet.** Julio Montoya, National Assembly Representative and member of the Zulia Parliamentary Block (BPZ), said “*the national economy is about to collapse, due to the inflation indexes and the supply shortage.*” Montoya demanded the resignation of the National Administration’s economic cabinet, claiming they have unstopably been generating more unemployment, misery, shortage and impoverishment.





## Legislative Tips

**Second absence of President Chavez to receive treatment.** The National Assembly (AN) celebrated an extraordinary session on August 6 to authorize the absence of President Hugo Chavez, who traveled to Havana, Cuba, to start the second stage of his chemotherapy treatment. Fernando Soto Rojas, president of the parliament, said this would be the shortest session in the history of the Venezuelan Parliament.

**National Assembly approved Organic Law of Sports.** The president of the Parliament, Fernando Soto Rojas, expressed his satisfaction as the debate ended and said the report was now being sent to the social development commission. Psuv representative Robert Serra reiterated that the creation of the fund was to benefit the disciplines that do not receive economic support and to guarantee the social security of all Venezuelan athletes.

**Law against money laundering.** The member and secretary of inter-parliamentary relations of Parlatino, Walter Gaviria, said a proposal was on the table in the Latin American Parliament for a law against money laundering. Gaviria said the Venezuelan legislation had *"laws about drugs, against corruption, organized crime, and that they were all very disperse; there's even a regulation in the banking system, but it is also disperse and some articles are not accommodated to the current reality."*

**Demanding balance in tenancy law.** The Real Estate Chamber of the Aragua state demanded balance in the treatment of the draft of the Tenancy Law, currently being discussed at the National Assembly's Administration and Services' Commission. The Chamber's president, Hector Gomez, said that some aspects of the law were too negative for landlords to establish three year contracts, which might be extended to five.

**Proposal to create fund for alternative media.** The Government proposed a draft to the Law of Communication for the People's Power which establishes, in article 17, a *"Fund to finance means of communication for the People's Power."* The fund would be attached to the office of the Vice president of the Republic and its objective would be to cover all operative, maintenance, investment, formation, training and content production expenses. Private companies would be required to contribute with 2% of their profit to the fund.



**Electric system platform.** The National Assembly's Energy and Oil Commission evaluated the possibility to create a research and development platform for the national electric system. Luis Acuña, president of the said legislative commission, highlighted the importance of planning the growth of the electric sector to cater to the nation's industrial and population development in a coherent and rational manner.

**Support to the Higher Penitentiary Council.** According to congresswoman and president of the National Assembly's permanent cult and penitentiary regime commission, Yelitza Santaella, the parliament is attacking the issue of the national penitentiary system with the creation of a Penitentiary Organic Law or Code that is more focused on the system. She said the penitentiary problem in Venezuela was a multifunctional one, and added that the new law would provide a base for the new ministry *"in charge of the national penitentiary situation."*

**Organic Law of Education.** During the I National Convention of Regional Observers of the Organic Law of Education (LOE), the national promoting commission for these organizations was created. Said commission looks to speed up the creation of observatories in the regions that don't have them yet and group them in a single national instance. The team expects to have installed all regional observatories within three months.

**No insular territory.** President Hugo Chavez will not be able to create the insular territory Miranda announced recently using his Law of Special Powers. Although the legal instrument includes territorial organization references, it does not grant him the power to create a new zone.





**ECONOMIC OVERVIEW**

