



# Weekly Report

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***U.S. Credit Rating Drops:  
Are the "Animal Spirits"  
attacking again?***

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*"Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic.*

*Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits - a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."*

Jhon Maynard Keynes

The last few weeks have been very agitated in terms of economics, not only in Venezuela due to the subject of the bond issuance and the President's health, but also around the world with one of the world's main economic players, the United States, suffering a blow to its credit rating.





The economic situation in Europe is also going through troubled times. Of the countries which make up the European Monetary Union, Spain, Italy, and to a lesser degree Portugal, have now joined the ranks of countries considered to be “not very solvent”, the so-called PIGS countries. And let’s not forget the third largest economy in the world, Japan, which was severely crippled after a devastating earthquake and tsunami at the beginning of the year, its economy severely affected, unable to contribute as it would to the worldwide economic recovery after the 2008 crisis. In this Report, we will offer our views on said events and any implications they may have on Venezuela.

**What happened?**

On August 2, 2011, United State’s President Barack Obama signed a law which was the subject of much discussion and controversy in both the House and Congress to reduce the fiscal deficit during the next 10 years and to increase the Federal Debt Limit, thereby allowing the U.S. Government to continue to pay its debts which have significantly increased during the last 10 years due to aggressive public spending in order to counter act the effects of two financial crises. But the measure signed by Obama was considered too tame by Standard & Poor’s (S&P), not enough in their opinion to effectively manage the country’s fiscal debt.

So, on August 5, 2011, the S&P lowered the United States long term credit rating from AAA to AA+. “*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,*” stated the executive committee at S&P.

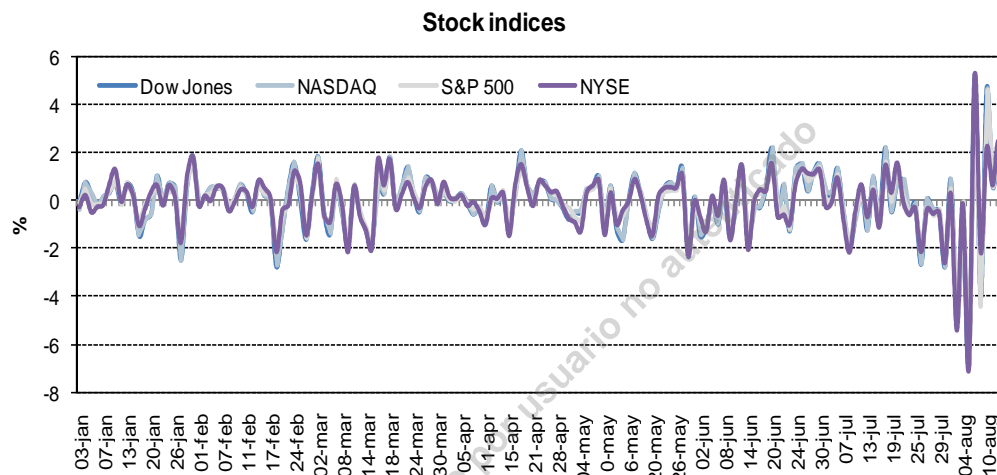
So now, the U.S. Treasury Bonds, seen by most around the world as the safest way to secure assets are now classified at a lower level than bonds issued by countries such as Great Britain and Germany. The impact of S&P’s harsh evaluation was softened by Moody’s Investors Service’s decision to maintain the U.S.’s “AAA” rating. Fitch Ratings stated that it was still evaluating what rating it would issue and would release its decision by the end of the month.

**Market reactions:  
Animal Spirits**

Despite the numerous measures implemented by economic policymakers around the world, the so-called risky assets market dropped significantly (6.6%) last week mainly due to exaggerate rumors about a new drop in the global economy and the approval of the new U.S. Federal Debt Limit that didn’t do much to inspire confidence that the U.S. would be able to avoid a drop in credit rating or that it would be able to handle its long term deficit



problems, thereby compromising the economic growth of one of the world's main economies in the long term.



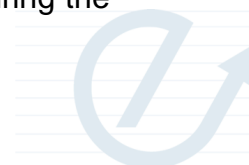
Sources: CNBC and Ecoanalítica

Furthermore, the bond spread for Spanish and Italian bonds spiked despite the fact that the European Central Bank reintroduced a bond buy-back program for these two countries plus Ireland and Portugal. Meanwhile, the intervention of other actors such as Switzerland and Japan had limited affect on the markets. So, increased risk aversion, has shown to have the potential to worsen the already precarious economic performance of the global economy, feeding the vicious circle between economy and markets.

### What's wrong with the world economy?

The latest figures of the world economy have been weak, with a few bright spots signaling better days ahead. The industrial production and services index was down in July. An important factor when it comes to measuring worldwide economic growth is Chinese imports (from Japan, Europe, U.S.) which dropped significantly during the second semester 2011. This trend is likely to continue given that Chinese authorities are trying to slow down economic growth in order to control inflation.

With the debt crisis and the fiscal consolidation underway in Europe clearly weighing on worldwide economic recovery, it's no surprise that analysts don't anticipate any significant economic recovery in this region during the second semester.





Rather, analysts are mainly looking to Japan and the United States to post encouraging growth figures during the second semester 2011, but this seems like a tall order to fill. Japanese industrial production figures have increased for the last three consecutive months closing in June. U.S. Automobile sales in July were up, but unemployment figures are not improving despite the fact that worldwide unemployment figures are showing some improvement. In the end, there are a series of mixed signals making it difficult to define just where the worldwide economy is at in terms of its recovery, and this uncertainty lends itself to financial market overreactions, which in turn could hamper economic growth or make any economic slowdown worse than it has to be. At **Ecoanalítica**, we believe that if markets stabilize, worldwide economic growth could improve during the second semester.

#### What did the FED do?

The U.S. Federal Reserve Bank (FED) issued a statement recently from its monthly meeting of its Finance Officials Committee. Its president, Ben Bernanke, did not promise a new stimulus plan from the moment, but he did mention that the labor market will continue to be weak, and in case that the economy slowdown were to become severe, the FED would intervene with whatever tools necessary.

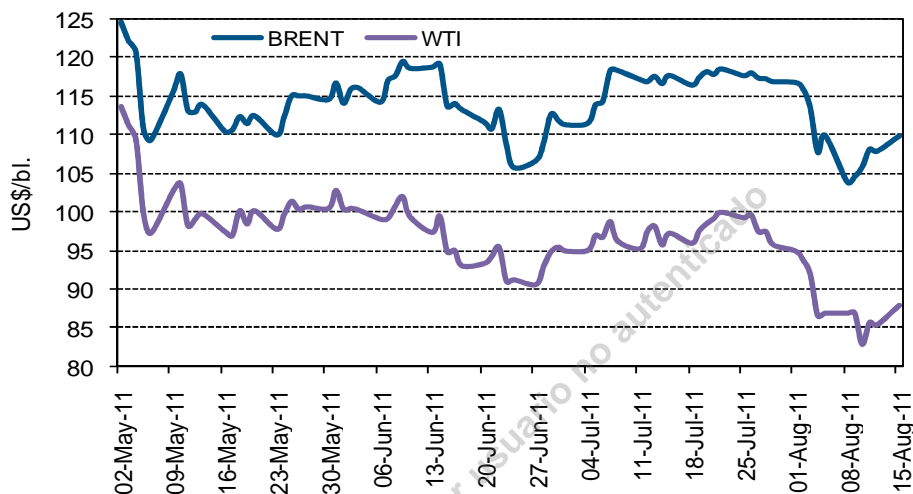
At **Ecoanalítica**, we believe that the FED's message sent a clear signal to stimulate markets, that they can continue to work and that extraordinary rates will remain low for the following two years. The point of this was to appease the "animal spirits," or in other words to erase any pessimistic feelings and to stimulate investment. Given the degree of support to the policy and the reaction of the markets, let's hope that recovery is well underway. But, there is a problem when one thinks about how the FED will be able to support a real economy recovery (production and creating jobs), which is precisely what is generating the most pessimism in markets during the past few years, and what is not allowing the worldwide economy return to sustainable growth. This same observation applies to the measures implemented by the European Central Bank.

#### What are the implications for Venezuela?

If the world economy were to slowdown, the impact would be felt in Venezuela by the drop in worldwide demand for crude oil, which would drop oil prices on the international market, which would lead to a drop in oil revenue. But, there is no precedent that can help calculate just how far oil prices will drop. Take for example, that in the space of 10 days, the main international oil price markers dropped between US\$10 to US\$15 per barrel, including the Venezuelan oil basket, which in the last two weeks has dropped around 11.8% of its value.



### Crude Oil prices



Sources: Investis and Ecoanalítica

### The oil market isn't the same as in 2008

The composition and the behavior of the international oil market demand is much different now than in 2008. Back then, the crude oil demand for developed countries (OECD) dropped by 1.7%, while projections for crude oil demand this year only show a drop of 0.5 mb/d.

A partial analysis of this situation could point to it having an impact on oil prices; but what it really points to is just how much crude oil demand is growing from emergent economies (spearheaded by China). In 2008, emergent economies represented 44% for total demand, this year it's expected that they will represent 50%.

Then there is the question of crude oil supply and how this is impacted by the current conflicts in the Middle East and North Africa. Keep in mind that Libya, a member of OPEC, is virtually out of the market in terms of supply. This represents a loss of supply of around 280 million barrel of oil so far this year. And the conflicts in the Middle East have led to a number of countries in the region to invest more on public spending. This increase in fiscal spending begs for oil prices to level off and sustain a higher average price of between US\$90-US\$100/bl. which will generate the revenue they need to spend and to maintain adequate production levels.

At **Ecoanalítica**, we believe that the importance of China and the emergent markets in general is more important when it comes to defining how crude oil demand will be affected. If these economies suffer and



slowdown, then crude oil demand will suffer along with them, as will international crude oil prices.

**In the end what's important are economic policies**

Venezuelans are clear that if international oil prices drop than the economy will suffer significant impacts in key variables such as: exchange rate, inflation, economic growth, and fiscal deficit.

Despite the fact that fundamental economic indicators point to oil prices remaining over US\$90/bl, the Venezuelan economy in its current model requires that crude oil prices increase year to year by around 10% in order to avoid hardships as were faced in 2009 and 2010.

If oil prices were to drop, the knee-jerk-reaction for chavista era policy makers is to follow the cycle, in other words, cutback on fiscal spending which in turn has a negative effect on economic growth levels. And then, due to the exchange control which has led to imports increasing dramatically, the Administration will have no other recourse than to devalue the currency. Let's not forget that in Venezuela, a devaluation of the currency is the favorite way to make a fiscal adjustment. So, a scenario where oil prices drop, inflation is high, significant social demands, and State which is bloated, this could compromise the political scenario in 2012.

In the end, regardless of what happens with the price of crude oil, the most important thing is how the Administration will decide to respond and the policies it will design and implement to face economic crises. After almost 100 years of being a Petro-State, we have yet to learn how to manage our economy when facing these Shocks. Maybe we should ask our neighbors in the region, especially Chile and Brazil, how they have managed to do it. In Venezuela, it seems like the Animal Spirit is exacerbated by oil.





## Economic Tips

**President announces nationalization of exploitation gold.** President Hugo Chávez announced it would nationalize the exploration and exploitation of gold, activities that are currently developed by private and public companies under State concessions. Chávez said in a telephone call to an official, in an act of the military high command that was transmitted by a loudspeaker, that *"We will nationalize the gold and make, among other things, international reserves."*

**Transfer of 211 tons of gold to the BCV.** The President of Venezuela, Hugo Chávez, ordered to transfer to the BCV 211.35 tons of gold that the country has deposited in financial institutions abroad and that represent most of the international reserves, in order to protect the assets of the Republic from the crisis affecting the U.S. and Europe, where is placed the gold to be transferred.

**Consensus raised projections.** According to Consensus analysts, the economy will grow by 3.2% this year, while 3.4% of acceleration is expected for next year. Regarding inflation, the indicator has gone from 25.1% in June to 26.1% in July. Consensus analysts maintained their year-end forecast at 27.1%, while expecting 26.3% of inflation for next year.

**Debt keeps accumulating.** Over a period of 16 months, the National Administration has signed loan agreements with China, Russia and Brazil for US\$34 billion. In June of 2011, the credit line that feeds the Heavy Crude Oil Fund was increased by US\$4 billion. With the latest loan, Venezuela's debt with the Asian nation reached US\$28 billion, so between 20,000 and 25,000 billion barrels of crude oil per day have been delivered to cover these obligations. President Chavez also mentioned his Administration was planning to receive loans from Russia and Brazil for US\$8 billion to strengthen and finance the Housing Mission, the national railroad system and bridges.

**Fonden, 4 years unaudited.** The last Minister of Finance to present a full report on the National Development Fund, Fonden, autonomously, was Rodrigo Cabezas in May of 2007. Created in 2005, the Fund's financial statements were supposed to be assessed quarterly by the National Assembly's Permanent Finance Commission. Since May of 2007 there is no public information available about the enormous amounts of money received and handled by Fonden.





**Public sector debt estimate.** Over a period of 16 months, the Chavez Administration has signed loans with China, Russia and Brazil for more than US\$30 billion, and has enabled a complementary debt, with which last year's issuances exceeded US\$22 billion. Pdvsa has already issued bonds for US\$6 billion and is currently processing loans for US\$7.5 billion. At **Ecoanalítica**, we estimate the public sector's debt (Central Government, Pdvsa and other entities) will reach 50% of the nation's GDP by the end of this year.

**Cendas: Venezuelan's cost of living increased.** According to the Venezuelan Federation of Teachers' Center for Social Documentation and Analysis (Cendas-FVM), the cost of the basic household basket reached VEB 7,224 in July of 2011, an increase by VEB 166 and a 2.4% variation. The y/y variation for July, compared to the same period of 2010, was 29.6% or VEB 1,649.34, more than the minimum wage.

**Law of costs is one more step towards socialism.** The Law of Costs and Fair Prices will come into effect on November 22 of 2011. From that day, the fears inspired by the National Superintendence of Costs and Prices will either disappear or increase. According to attorney Juan Manuel Rafalli, *"it is based on the premise that the State is almighty and the private activity is subjugated."* *"This instrument will only generate more difficulties and fears for private companies."*

**Plan to reduce inflation.** The National Academy of Economic Sciences published a study analyzing the causes of the inflation and proposing a plan for Venezuela to be eliminated from the short list of countries still suffering from an accelerated and constant increase of prices. The group of academics, integrated by economists: Pedro Palma, Hector Silva Michelena and Hector Malave Mata, in the paper published in the book *Proposals for the Nation*, explain that *"an increased responsibility in the management of fiscal policies, separation and autonomy in the monetary policy have proved to be some efficient measures to mitigate inflationary processes worldwide."*

**National Assembly's Finance Commission authorized VEB 4.2 billion.** Out of the funds authorized in supplementary appropriations, VEB 2 billion will go to 11 projects of the long-term financing program and VEB 1.5 billion to the Inter-territorial Compensation Fund to be distributed among the regions and communal councils. VEB 10.9 million were authorized for the Ministry of Communication and Information and VEB 320.7 million for the Ministry of Nutrition, and the funds will be used to cover food costs in refugee shelters.

**Supplementary appropriation authorized for FAN.** According to *Decree N°8,383*, published in *Official Gazette N° 39,731* on August 9, 2011, a supplementary



appropriation for VEB 4.3 million was authorized for the project “*executing military operations for the Nation’s safety, defense and integral development.*”

**Funds authorized for the Federal Government Council.** The Parliament authorized a supplementary appropriation for VEB1.57 billion to be invested in the development of regional projects through the Federal Government Council.

**Growth will be lower than in the first quarter.** Measured in terms of Gross Domestic Product (GDP), the Venezuelan economy maintained a growth trend in the second quarter of 2011, according to a small survey of productive sectors and specialists, but the estimate also indicates the growth will not reach the first quarter’s 4.5%, compared to the same quarter of 2010.

**Interest rates.** The lending rate for the fifth week in July was at 18.70%, increasing by 0.25 percentage points compared to the previous week. The time deposit rate also remained 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 decreased 1.6% going from US\$29,214 million during the fifth week in July to US\$28,750 million during the second week in August. Compared to the same period last year, international reserves have decreased by 15.5%.

**Monetary liquidity.** Monetary liquidity in the first week in August decreased 2.6% compared to the previous week settling at VEB 342,943 million. The M2 has increased 36.9% year-on-year.

**Sitme figures.** So far this year, US\$5,051 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\$152 million, US\$11.8 million more than last week when US\$140.3 million were traded.

## Oil Tips

**Venezuelan production increased.** According to OPEC sources, Venezuela has produced 2.42 million bl/d of crude oil this year, a 5.2% increase compared to the



same period of 2010, when the average production was at 2.3 million bl/d. In the monthly evaluation, Venezuela increased its extraction by 17,000 bl/d in July, compared to June of 2011, a 0.7% increase.

**Oil production exceeded 2.9 million b/d.** According to the Ministry of Energy and Oil, Venezuelan oil production exceeded 2.9 million bl/d during May and June of 2011. The Ministry also said the Venezuelan oil production numbers reported to the Organization of petroleum Exporting Countries (OPEC) and released by several international news agencies and newspapers *“refers specifically to the numbers used by OPEC to control oil production quotas.”*

**Slight demand growth.** OPEC reduced its demand growth prediction for 2011, placing it at 1.2 million barrels of oil per day, a review down by 150 thousand barrels per day, owed to the economic weakness of the largest consumers.

**Oil income of the first semester.** The increase in the price of oil during 2011 has represented a considerable 40% increase for Venezuela's income for oil exports during the first semester of 2011, compared to the first semester of 2010. US\$42 billion of income were reported the first semester of 2011, calculated at an average price of US\$98.23/bl. The oil income of the first semester of 2010 reached nearly US\$29.9 billion.

**Fewer shipments in June.** The Ministry of Energy and Oil reported that during June, Venezuelan oil exports reached an average 2.41 million bl/d, a 66,000 bl/d contraction compared to May. Oil byproduct exports decreased by 20%, reaching 371,000 bl/d, said Reuters. Production also fell in June, reaching 2.77 million barrels per day, nearly 20,000 barrels less than the 2.79 million barrels extracted in May.

**Pdvsa maintains debts with Fogade and Banco del Tesoro.** The fall of oil prices registered between late 2008 and 2009 led Pdvsa to seek financial assistance in public financial entities, and even though the oil company's finances bounced back, they have maintained their debt with these institutions.

**Petropiar increases production.** Pdvsa's mixed-capital company Petropiar broke the 160,000 bl/d extra heavy oil production barrier last week, exceeding the average 155,000 bl/d of the first quarter of 2011. The goal is to reach a production of 169,000 bl/d by December as part of the Tricolor Plan.

**Less Venezuelan crude oil for the US in July.** According to information provided by the US Department of Energy, during July of 2011, an average 840,000 bl/d of crude oil were shipped from Venezuela. This represents a 10% decrease compared to the



938,000 barrels of crude oil shipped from Venezuelan ports to US territory during June.

**Pdvsa reduced spills but affected a larger area.** Pdvsa's 2010 administration report indicates that 2,393 hydrocarbon and chemical product spills, filtrations and leaks were reported in 2010, compared to the 8,124 reported in 2009. The variation of events between 2009 and 2010 resulted in a 70% decrease. Despite the fewer spills, the total area affected quadrupled, as in 2010 a total area of 412.5 hectares was contaminated, compared to the 101.8 hectares affected in 2009.

**Events with environmental effects.** In 2010, 320 hectares or 77% of the contaminated land areas were cleared, while 69 hectares were treated in 2009, an equivalent to 85% of affected areas both in land and water. To treat, clear and control these "events with environmental effects," Pdvsa and its affiliated companies devoted VEB 231.7 million in 2010.

**International oil baskets.** At closing time on August 05 in the New York Exchange, the price of the WTI was US\$83.22/bl, a 10.1% decrease compared to the US\$95.15 reported the previous week. The Brent decreased by 7.0% to reach US\$106.08/bl, compared to the previous week's US\$114.1/bl.

**Local oil basket price.** The Venezuelan oil basket price decreased last week, closing at US\$95.15/bl on Friday August 12, a 8.0% contraction compared to the US\$103.45/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.43./bl.

## Business Sector Tips

**Public banking system contribution adjusted.** In a joint decision of the ministries of the people's power for Planning and Finance and Public Banking, it was agreed to reduce the percentage of public banks' contribution to the Bank Deposits' Social Protection Fund from 0.50% to 0.25%. According to the ministry of Finance's report, this providence will allow the public banking sector to save VEB139.5 million in transformation expenses in the second quarter of 2011.

**A new obstacle adds to the list.** According to *Official Gazette N° 39,496* of August 26, 2010, regarding the normative to set the Vehicle Identification Number (NIV), the



digit that corresponds to the vehicle's year needs to match the year of production and not the model year assigned by the manufacturer. By this normative, starting 2012, new vehicles will arrive late to the nation, as manufacturers and importers will be obligated to delay the launching of their products.

**Sidor's production down due to supply shortage.** Sidor needs 160,000 tons of iron mineral to produce pellets, but currently receives only 90,000 tons. The low supply has caused the shutdown of Line B of the Pellet Plant since July 22. Workers of the pelletizing area issued a statement expressing their concern over the low supply and deficient quality.

**New adjustment to producer-level rice and corn prices.** The 30% adjustment in to the price of corn, rice and soy at producer level authorized by the National Administration on May 2 became effective last August 15. Producers are once again asking the Administration to revise production costs and to adjust cereal prices to guarantee the crops sustainability.

**Colombia offers 15,000 tons of milk to Venezuela.** Colombia awaits Venezuela's authorization to export 15,000 tons of milk per month, said the Colombian Minister of Agriculture, Juan Camilo Restrepo. The negotiation will be part of the process to strengthen the commercial relations between both nations, said the clerk.

**Basic food imports increase.** Although the shortage is evident in establishments' shelves, the National Institute of Statistics indicates otherwise, as the international purchases of seven basic products experienced increased from 11.6% to 1,500% during the first five months of 2011, compared to the same period of 2010.

**People talk about the level of shortage.** The president of Datanalisis, Luis Vicente Leon, said that at least 17 basic products were in shortage in Venezuelan grocery stores, due to the problems faced by companies to produce without absorbing the losses related to price controls. As the result of a study carried out on August 9, it was possible to determine that the level of general shortage has reached 19.2%.

**...but the absence of some basic food products is much more serious.** Among these basic goods we find corn oil, vegetable oil and powdered milk in sachet, all with a 42.3% shortage index as of the same date (August 9), way over the general average. The supply of both types of cooking oil got worse compared to the previous measurement, when the product was found in 28.2% of the establishments visited. Powdered milk maintained the same level registered the previous week.

**Not only cooking oil is absent.** Besides cooking oil, less establishments have sugar (unavailable in 26.8% of commercial establishments visited), pasta in 1-kilogram



presentation (fully available a week before the study and not short in 2.8% of establishments) and chicken, with a 37.3% absence. Also above the general shortage average is beef (35.6%), white cheese (32.1%) and sugar (26.8%), said Luis Vicente Leon.

**Supreme Court of Justice established standards for insurance companies.** If a person gets a policy with an insurance company without knowing they have diabetes, cancer or any other disease or malformation and the insurance company doesn't detect it either, then the latter, shall under no circumstance be allowed to deny assistance to its client for any event occurred as a consequence of said condition.

**Mini banking crisis affected 2,944 jobs.** According to Sudeban, the auditing and shutting down of 15 small and mid-sized banks between November of 2009 and 2010 evaporated 2,944 jobs in the financial system. According to this information, the number of workers in the financial system was reduced from 77,277 in December of 2009 to 74,283 in December of 2010.

**Colombian-Venezuelan business climate remains uncertain.** The commercial relationship between Venezuela and Colombia remains marked by uncertainty by the inexistence of an agreement between both nations, according to Luis Alberto Russian, executive president of the Venezuelan-Colombian Economic Integration Chamber (Cavecol).

**Rebar shortage exceeds 70%.** A study prepared in July by the Venezuelan Chamber of Construction (CVC) revealed that the level of rebar shortage has reached 76%, which means that most nationwide distributors are not supplying these steel products.

**Trade balance between Venezuela and the US in positive numbers.** The trade balance between Venezuela and the United States reached a positive result of US\$17.03 million the first semester of 2011, 49% more than in the same period of 2010.

**Venezuelan exports to US grow over 30%.** According to the recent report issued by Venamcham, Venezuelan exports to the United States reached US\$22.6 billion, a 38.3% increase, equal to US\$6.27 billion more than the transactions made for the same concept during the first half of 2010.

**Labor conflict in Toyota threats to continue.** The shutting down of operations at Toyota plants by the company's workers union puts its continuity at risk, said the company in a press release.



**Great Housing Mission registration exceeded all expectations.** 1,163,168 families enrolled in the second wave of registration for the Great Housing Mission Venezuela, which finished early in August in the states of Aragua, Carabobo, Lara, Merida, Táchira, Trujillo and Yaracuy, said the vice president of the Economic and Productive Area, Ricardo Menendez. This new number represents 3,163,826 people who *“now have a chance to access a better living in benefit of the nation’s social development.”*

**Cadivi has authorized more than US\$900 million for airlines.** Between January 1 of 2011 and now, Cadivi has authorized more than US\$900.5 million for the airline sector. International airlines have received over US\$791.2 million, while domestic airlines have received US\$109.3 million.

**Currency allocation for commerce cut in half.** The statistics of Cadivi, the entity in charge of distributing foreign currency at the official exchange rate of VEB/US\$4.3 indicate the amount of currencies allocated to commerce has been reduced to 50% comparing the first quarter of 2011 with the same period of 2010. In the first six months of 2010, the currencies granted for commercial activities reached US\$1.52 billion, and in the same period of 2011 the number reached only US\$772 million.

**Sea lines raised freight costs to local ports.** Sea lines raised the costs of sea freights to Venezuela by 5%, according to a source linked to the port activity. According to the source’s explanation, sea lines are making this adjustment based on the increase to port duties and rates applied by Bolivariana de Puertos (Bolipuertos) since June.

**Conatel in numbers.** According to the official numbers released by Conatel, as of the end of the second quarter of 2011, the number of landline telephone subscribers increased by 3.6%, while the number of new mobile service users decreased by 4.7% during the same period. As to the number of internet users, Conatel’s report shows a 9.2% increase for the second quarter of 2011.

## World Economy Tips

**Wall Street closed ahead.** The US stock market closed its third consecutive session with sustained gains on August 15, thanks to investors who saw an opportunity to get back on the market with Google and Motorola Mobility’s offers after weeks of strong



sales. The Industrial Dow Jones gained 213.9 points or 1.9% to close at 11,482.9 units, unofficial, while Standard & Poor's 500 went up by 25.7 points or 2.2% to close at 1,204.5 points.

**US importing prices up in July.** US importing prices increased in July due to the higher costs of oil, food and commodities, according to a Government report. Imports reported a 03% increase after a 0.6% decrease reported the previous month, said the US Department of Labor.

**Gold keeps going up.** The price of gold went up another 1% on Monday, August 15, as the USD decrease and strong oil and grain revenues boosted gold bricks before a French-German Summit to discuss the debt crisis in the Euro zone in Paris. The precious metal went up just before the diffusion of data showing changes in gold fund trends. Cash gold gained 0.9%, reaching US\$1,761.24 per ounce on Monday afternoon. The metal jumped almost 5% last week, the biggest weekly increase since early November, 2010.

**IMF: strong economies can still help.** Advanced economies still have a chance to offer short term support to employment and growth by creating new jobs, investing in infrastructure and easing adjustment in housing markets, even while focusing on medium term fiscal consolidation, said the head of the International Monetary Fund (IMF) Christine Lagarde, who assured the fiscal adjustment *"should solve the dilemma of not being too fast or too slow."*

**European exchange markets report losses for weak GDP figures.** Europe's exchange markets suffered a fall last Tuesday, August 16, putting an end to the recovery started last week, after investors were hesitant over low growth figures reported in Germany. The German GDP decelerated more than expected in the second quarter of 2011, down to 0.1% SAAR, compared to the 1.3% of the first quarter. The markets' attention is now on the French-German Euro zone crisis Summit.

**ECB disbursement to purchase bonds.** The European Central Bank (ECB) reported spending €22 billion (US\$31 billion) purchasing government debt papers last week, after reactivating its bond acquisition to try and keep Spain and Italy away from the euro zone debt crisis.

**Chinese inflation could go up in the third quarter.** Inflation in China could go from 5.7% to 6.2% during the third quarter of 2011, said a State study center on Tuesday, warning that food price pressures would continue. In a general outlook of the economy, it is expected to grow by 9.2% in the third quarter, a slight deceleration compared to the two previous quarters.



**Latin American currencies up.** Most Latin American currencies are slightly appreciated this week, as the volatility of world markets due to concerns for the US economy and the debt crisis in Europe of previous sessions finally decreased. Regional foreign exchange operators are fully alert to the release of key figures in the US industrial sector, looking for clues about the future of the complicated health of the world's largest economy.

**Brazil: analysts reduced inflation forecast.** For the second consecutive week, analysts reduced their predictions for Brazil's 2011 referential inflation index from 6.28% to 6.26%, according to a weekly survey carried out by the Central Bank on Monday, August 15. They also reduced their inflation estimate for next year from 5.27% to 5.23%.

**Uruguay gains respect among neighbors and investors.** Uruguay is on the right track to recover a high level of investment after being upgraded by two credit rating agencies the past month, while the voluntary renegotiation of its 2003 debt is quoted as an example for Europe, stuck in a crisis.

## Political Tips

**Chavez returned to Venezuela after finishing his chemotherapy sessions.** President Hugo Chavez returned to Venezuela on Saturday, after finishing a chemotherapy treatment in Cuba, said the newspaper Juventud Rebelde on Sunday, August 14.

**Chavez doesn't rule out third phase of chemotherapy.** President Hugo Chavez said last Sunday, August 14, his medical team was waiting for his reaction to the recently finished second phase of his chemotherapy treatment to decide whether a third phase or even radiotherapy treatment would be necessary

**President Chavez to purchase more weapons from Russia.** After asking for "unity and more unity," and "not falling in provocations of any kind," in what he called "the swine plan" against the Armed Force, President Hugo Chavez announced he would destine US\$2 billion for "equipment and training" of the military forces.

**Urging to exceed all boundaries.** The Venezuelan Head of State urged his followers to exceed the voting record obtained 7 years ago. "Comrades, if 7 years



*ago we beat them with 60%, in 2012 we have to exceed that goal! Let's go, my people, let's go!"* said President Hugo Chavez on Monday on his twitter account @chavezcandanga. The President currently has a 58% of approval, according to the agency GIS XXI.

**Democratic Unity Table needs to be investigated.** President Hugo Chavez called State entities to open an investigation for violation of the National Constitution against the Democratic Unity Table over a letter sent to North American congressmen and a communication with a European party.

**Towards perpetuity with the people.** On Saturday, August 13, the executive vice president of the Bolivarian Republic of Venezuela, Elias Jaua, assured that President Hugo Chavez would once again win the presidential election because this people would continue ruling and wouldn't give up its power.

**After the cancer, Chavez followers increase in sectors D and E.** *"What's happening is he's once again consolidating his (Hugo Chavez's) strength in social sectors D and E, where he had lost some ground over the last few years, giving way to a new consolidation process,"* concluded Jesse Chacon, director of Grupo de Investigación Social XXI (GISXXI), as he analyzed the survey of July, 2011.

**And people's valuation of President Chavez keeps growing.** Supported by graphs, Chacon said the results of people's valuation of President Chavez's Administration reached 57.8%, rounded up to 58%, 3 points more than previous and historical results.

**Logistics of primary election to cost VEB 9 million.** Exactly six months before the opposition's primary election, the Electoral Commission of the Democratic Unity Table (MUD) announced that candidates to run against President Chavez could present their candidacies during the first few days of November.

**More than 60% think the nation's level of shortage is negative.** According to a perception study prepared by Datanalisis, 62.7% of Venezuelans think that, over the last few days, the level of food shortage in their usual establishments has been negative. On the other hand, 37% consider it to be positive, and 0.3% are not aware of the fact or didn't answer.

**No to absolute reelection.** The governor of Táchira and presidential pre-candidate for the opposition, Cesar Perez Vivas, expressed his support for a constitutional amendment that would guarantee the elimination of the absolute presidential reelection and expressed his commitment to promote such an initiative from the first national magistracy.



## Legislatives Tips

**Landlords will be penalized.** The National Assembly's Administration and Services' Commission authorized more provisions in the draft to reform the Tenancy law. In the ordinary meeting, commission members authorized the articles referring to the leasing preference, where it is stated that landlords will be required to indemnify their tenants if they deceive them. If tenants are asked to vacate the property due to an alleged sale and after a specific period of time the property is rented out again, landlords will be required to indemnify the previous tenant with 100 Tax Units (VEB 7,600) per month.

**2 Laws and 97 supplementary appropriations.** The work of the National Assembly during the first half of 2011 seems to have been limited to authorizing supplementary appropriations. Up until the last ordinary session celebrated on August 9, the National Assembly authorized 97 supplementary appropriation requests from the Government, adding up to a grand total of VEB 74.12 billion added to the Government spending. It is worth mentioning that during the whole year 2010, the National Assembly authorized supplementary appropriations for a total of VEB 79 billion.

**Funds authorized also for the China agreement.** The Parliament also authorized an extraordinary operation for VEB 2 billion to finance 11 plans of the "Long-Term Projects' Financing Program," and on that subject, Representative Ramon Lobo said the funds were "complementary for some areas, not typified in the bi-national agreement." According to the representative's explanation, although the programs had allocations from the Long-Term Fund, they needed some other allocations.

**Health Services in Private Hospitals.** National Assembly Representative for Caracas, Robert Serra, announced that the Permanent Commission for Integral Social Development started discussing health and private hospitals. Such proposal was presented by an alliance of 5,000 workers of 10 State institutions. The purpose of this debate is to discuss aspects to fight the existing speculation and usury in the cost of services offered in private health institutions.

**National Assembly requested proclaiming Cesar Rengifo as historical heritage.** In an act celebrated at the Legislative Palace's Protocol Chambers, in Caracas, National Assembly members requested the National Administration to declare the life and work of writer Cesar Rengifo as National Historical and Cultural Heritage. These



qualities of Rengifo enable the reinforcement of *“the national identity and the Venezuelan, Indian-American and Caribbean culture, the self-determination of peoples and the non-intervention of the North American empire,”* reads in the document.

**National Assembly went on break in debt.** So far, the Parliament has not sanctioned any of the 28 drafts included in the basic legislative program. The only norm sent to Miraflores is not on that list, as it was sent by the Administration. The National Assembly has authorized 101 supplementary appropriations for a total of VEB 73 billion, has appointed 10 ambassadors, including Isaias Rodriguez in Italy and Bernardo Alvarez in Spain, and has authorized 27 agreements and 21 approbatory laws. The Parliament also appointed the judges of the Disciplinary Judicial Tribunal and the Disciplinary Judicial Court.

**Second discussion of the Law against Discrimination.** The Organic Law against Racial Discrimination is a legal instrument that seeks to protect human rights and put an end to any kind of discrimination in Venezuela. Another important element of this instrument is its social character, as it seeks to eliminate any kind of discrimination through the creation of a new attitude to allow the active participation of citizens of African and Indigenous descent in all fields.

**Parliament met with private hospital owners.** On August 16 of 2011, a meeting between the National Assembly's Social and Integral Development Commission, representatives of the Ministry of Health and private hospital owners was celebrated to define a price scale that is fair for both sectors and to favor the people who choose to turn to private health institutions.

**National Assembly to hold extraordinary sessions.** The board of directors of the National Assembly called representatives to extraordinary sessions to be duly summoned within a few days, said the first vice president of the Parliament, Aristobulo Isturiz. During the session, the board decided to postpone the second discussion of the Racial Discrimination Law draft for a future meeting.

**Parliament to investigate alleged foreign financing of opposition.** On August 15, the National Assembly authorized the creation of a mixed commission integrated by representatives of the Foreign and Internal Politics commissions to investigate an alleged financing and support requested by the Democratic Unity Table to foreign organizations. On that subject, representative Cilia Flores assured the official wing had proof of this international financing of the Venezuelan opposition.





**ECONOMIC OVERVIEW**

