

## Is there a limit to how high the parallel exchange rate will climb?

So far this year, the parallel exchange rate has depreciated by 74.9% and, year-on-year, the depreciation is 88.3%. Over that same period, inflation has reached 96.0% and 147.0%, respectively. A key issue for the majority of economic agents in Venezuela is having an understanding the nature of this escalation of the unofficial exchange rate and what expectations are for the medium term.

### A static view of the matter

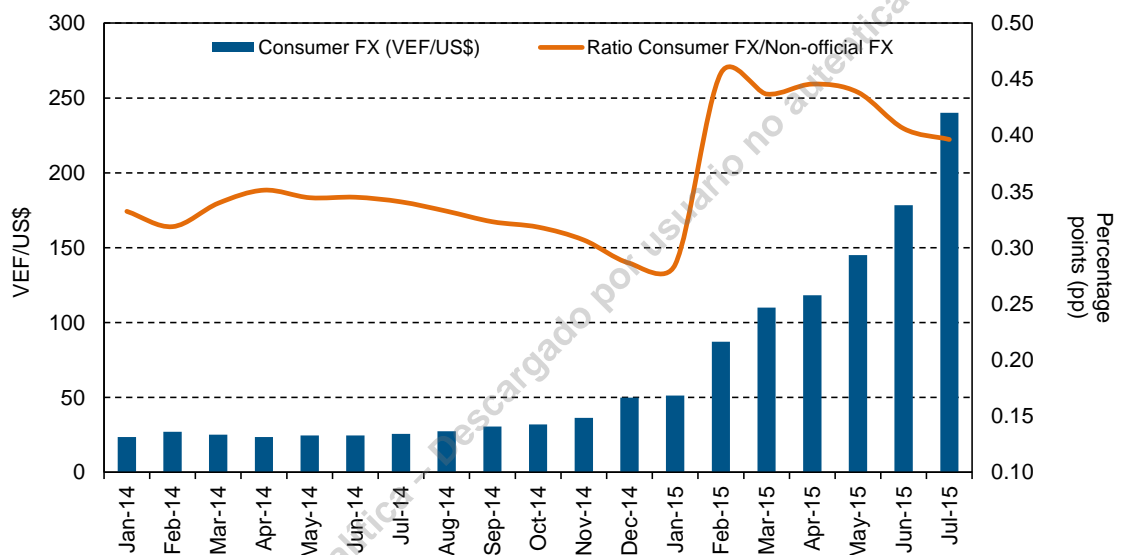
It is clear that there are multiple factors behind the increase in the parallel exchange rate, the most salient being the sharp reduction in the supply of foreign currency through official channels. According to **Ecoanalítica's** figures, in the first seven months of the year, the daily disbursement of foreign currency via official mechanisms was US\$46.4 million on average, way below the US\$139.9 million a day disbursed over the same period last year and representing a drop of 66.8% year-on-year.

Disbursements Through Official Mechanisms (US\$ MM/day)					
	CADIVI/CENCOEX	SICAD I	SICAD II	SIMADI	Total
Jul-14	77.6	37.0	31.5	-	146.1
Aug-14	88.1	22.5	25.3	-	135.9
Sep-14	79.2	18.6	37.1	-	134.9
Oct-14	82.1	-	25.1	-	107.2
Nov-14	97.1	27.5	15.8	-	140.5
Dec-14	77.2	-	19.0	-	96.2
Jan-15	60.5	-	14.6	-	75.1
Feb-15	43.8	-	13.8	-	57.7
Mar-15	39.6	-	-	0.8	40.4
Apr-15	38.7	-	-	1.9	40.6
May-15	35.6	-	-	2.4	38.0
Jun-15	43.6	-	-	2.8	46.4
Jul-15	46.1	1.5	-	4.2	51.8

Source: BCV, MEFBP and Ecoanalítica

This has prompted an increasingly larger number of companies operating in Venezuela to use foreign currency acquired at the parallel exchange rate to purchase goods and services (inputs, raw materials, intermediate goods) and also to use the parallel rate to calculate the adjustment for replenishing inventories, a dynamic that varies depending on the sector in which they operate.

### Weighted FX of the Venezuelan Consumer



Source: BCV, CENCOEX and Ecoanalítica

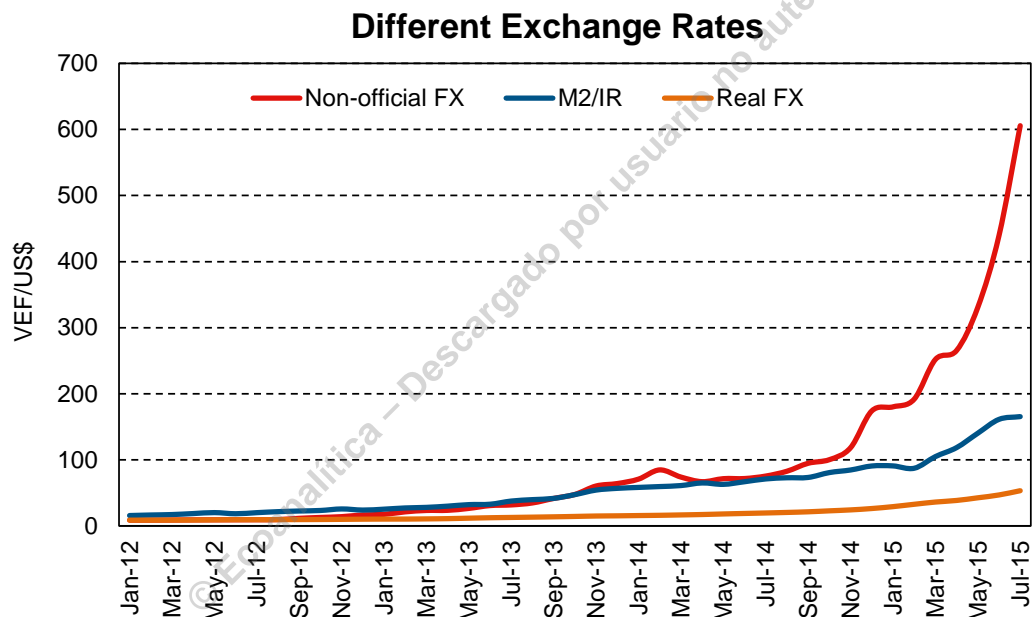
In addition, the “border” factor also has an impact. Since the legal mechanism of the swap market was eliminated in 2010, information about the parallel exchange rate entered into a kind of grey area. Initially, informal money desks were set up based on supply (which came from the public sector by different routes) and demand established the price. This mechanism began to succumb at the end of 2012, when the parallel exchange rate started to be set by exchange operations between bolivars and Colombian pesos at the border, with all the distortions that operate there (in particular smuggling).

In the opinion of many analysts, these two factors are more than enough to explain why the depreciation of the parallel exchange rate has speeded up. They even point out that the “border” element generates an additional distortion that raises the price.

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## Is the parallel rate speculative?

This is one of the most polemical elements in the present debate on the quotation of the parallel exchange rate in Venezuela. It is said that the parallel exchange rate is already close to the VEF 700/US\$ mark. This is an exchange rate that makes no sense in view of the fact that the implicit exchange rate (liquidity/reserves) is VEF 165.4/US\$ (at the close of July) and, even worse, the real equilibrium exchange rate, according to our model, is VEF 53.2/US\$.



Source: BCV and Ecoanalítica

However, there are several points that need to be made:

1. In economics, agents' expectations have a certain weight, and this is a key factor not only for understanding why the parallel exchange rate continues to go up but also why agents are prepared to pay that price when they decide to buy a dollar.
2. Given the manifold imbalances being experienced by the Venezuelan economy (fiscal, monetary, foreign exchange) and the destruction of relative prices, the aforementioned indicators are of very little relevance. The key factor is confidence, or the lack of it.

3. The depreciation of the parallel exchange rate is in line with the escalation in inflation, in a context where the possibility of hyperinflation is a latent risk. This is a key issue. Economic studies on cases of hyperinflation indicate that they were preceded (and characterized) by an aggressive depreciation of the parallel exchange rate as agents' expectations were that prices would continue to go up and this increased their demand for foreign currency as a mechanism for protecting their assets. For us, this is a key factor in the depreciation of the parallel dollar in recent months.
4. A scenario of fiscal dominance (where the Central Bank expands money supply to finance the public sector deficit) puts more pressure on the parallel exchange rate. In 2014, 34.2% of the public sector deficit was financed via expansion of the monetary base. In 2015, **Ecoanalítica** estimates that that figure went up to 60.0%. This undermines confidence in the local currency and puts pressure on the demand for assets (both tangible and intangible), which pushes up the parallel exchange rate.

### Is the value of the parallel exchange rate so off base?

As we said earlier, many analyses of the parallel exchange rate highlight the disconnection between this and the implicit liquidity/operating reserves. However, the makeup of our reserves and the public sector's foreign currency position are factors that should be taken into account. More than 66.0% of the reserves are in gold; the liquid position at the close of July was US\$5.65 billion. On the other hand, the public sector has liquid assets outside the reserves, but which are handled with a high level of opacity and scant transparency. At the close of the first half of the year (1H2015), **Ecoanalítica** estimates that resources in foreign currency outside the reserves totaled US\$7.4 billion.

This allows us to rewrite the indicators. If we use an adjusted measure for the underlying exchange rate based on the liquidity/operating reserves ratio (including gold that is outside the country), the underlying exchange rate comes to VEF 414.1/US\$ at the close of July. In July, the parallel exchange rate closed in VEF 677.9/US\$. On the other hand, if we improve the indicator and say that the implicit exchange rate is based on the liquidity/public sector liquidity ratio (operating reserves + extra budgetary funds not committed to projects + gold abroad), it would come to VEF 253.2/US\$ for the same month and the spread between it and the parallel rate would be 167.7%.

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### Underlying Economic Indicators (VEF/US\$)\*

<b>M2/ IR</b>	165.4
<b>M2/ Operating Reserves**</b>	414.1
<b>M2/ Liquid Assets of the Public Sector</b>	253.2
<b>Non-Official FX</b>	677.9

Source: BCV and Ecoanalítica

\* End of July 2015.

\*\*Includes the amount of monetary gold placed abroad.

These simple accounting calculations demonstrate that, given that agents do not have a clear idea of the position of liquid assets currently available to the Republic, it does not make much sense to use this indicator, much less to point out that the spread between the two rates is largely due to the speculative element present in the current quotation of the parallel exchange rate, which, to our way of thinking, reflects, rather, that the manifold imbalances are pushing up the unofficial exchange rate.

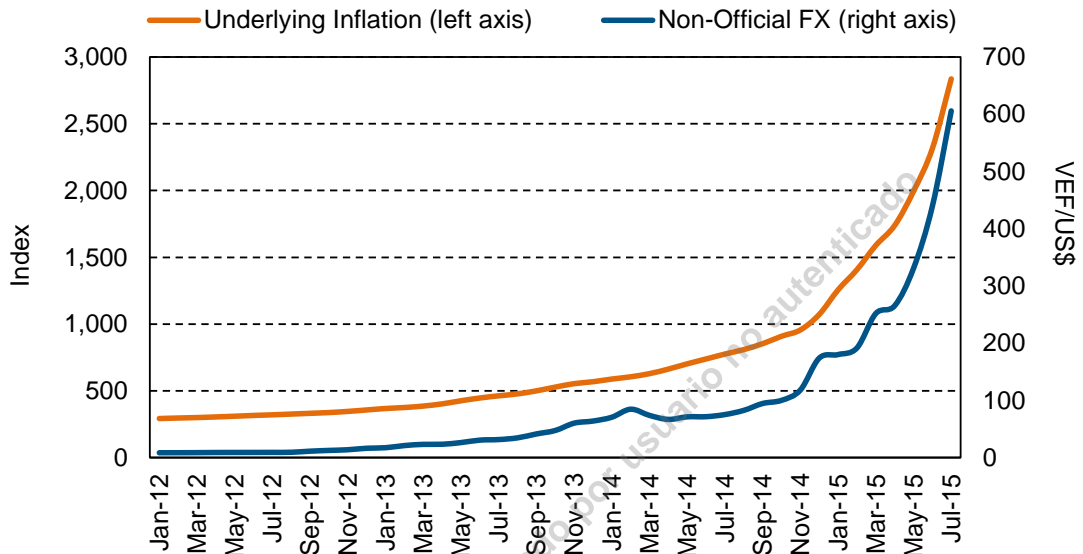
### What can we expect from the parallel exchange rate?

At **Ecoanalítica** we are working on an econometric model that will help us to analyze and predict the trend in the time series of the unofficial exchange rate, which, owing to the issues we have briefly commented on here, is not free of difficulties. The key issue in the next few months is, as we have said in earlier reports, that, as long as the Executive does not solve the manifold imbalances in the Venezuelan economy, the parallel exchange rate will continue to depreciate significantly.

This phenomenon has four negative consequences for the economy: 1) It leads to a partial shutdown of commercial activity given that it is not possible to estimate replenishment costs with any degree of accuracy; 2) The tendency for sectors of the economy to become dollarized in a context of deteriorating wages and high inflation continues to increase; 3) It makes taking foreign exchange policy measures to reduce the spread between the official exchange rate and the parallel exchange rate costly; and 4) It has an impact on inflation due to the pass-through effect.

Moreover, if the inflationary spiral continues (the numbers we have obtained for our underlying inflation estimates for July are fairly worrying), this is going to put even more pressure on the parallel exchange rate.

### Underlying Inflation vs. Non-Official FX



Source: BCV and Ecoanalítica

### What can be done?

At **Ecoanalítica** our recommendation to our clients who have foreign currency requirements until the end of the year is that they carry out coverage operations as soon as possible. The ideal thing would be to determine foreign currency requirements up until December and obtain coverage immediately. This will provide protection from the anticipated escalation in the unofficial exchange rate.

The end of this year and the start of next will be a crucial period for evaluating whether or not to continue with coverage, as it will be a time when things will be defined on the foreign exchange front. At **Ecoanalítica** we stand by our forecast that the Executive will establish a dual system after the parliamentary elections.

**Asdrúbal Oliveros**

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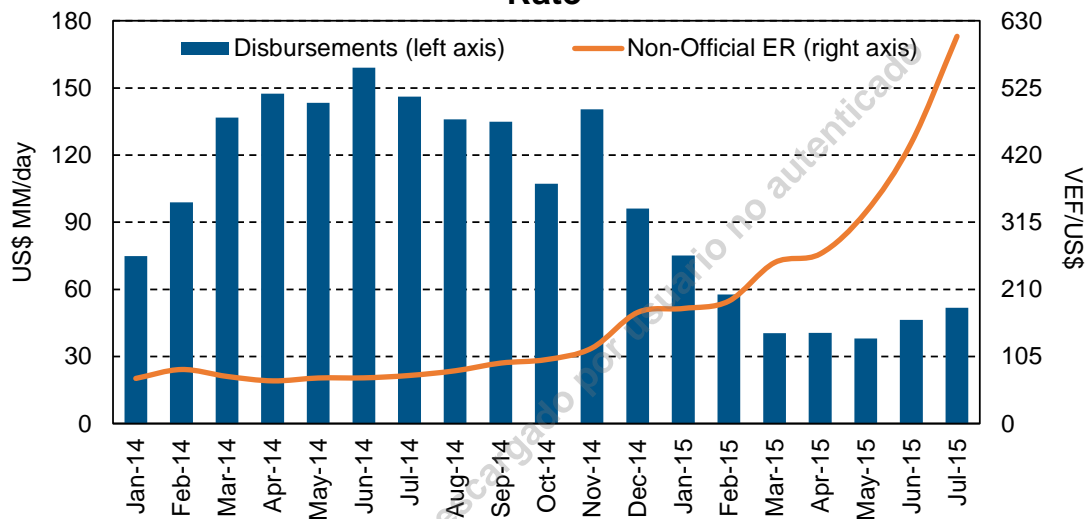
## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week August	Weekly var. (pp)	Annual var. (pp)
Lending interest rate (%)	20.4	0.5	1.8
	1st Week August	Weekly var. (pp)	Annual var. (pp)
Overnight interest rate (%)	4.8	2.4	-8.7
	1st Week August	Weekly var. (%)	Annual var. (%)
International reserves (Bn US\$)	16.72	-1.5	-17.3
	1st Week August	Weekly var. (%)	Accum. var. (%)
Central Government spending (VEF Bn)	27.1	-21.2	65.2
	5th Week July	Weekly var. (%)	Annual var. (%)
Monetary liquidity (VEF Bn)	2,808	2.3	87.1
Price of International Oil Baskets (US\$/bl)			
	1st Week August	Weekly var. (%)	Annual var. (%)
WTI	45.6	-5.4	-53.3
Brent	50.2	-6.4	-52.2
Price of the Venezuelan oil basket (US\$/bl)			
	1st Week August	Weekly var. (%)	Annual var. (%)
Weekly average	43.2	-5.9	-53.2
Annual average	49.4	-0.4	-48.9

Source: BCV, MENPET, ONT and Ecoanalítica

GRAPH OF THE WEEK: “THE LESS THERE ARE, THE MOST IT COSTS”

**Currency Disbursements\* vs. Non-Official Exchange Rate**



Source: BCV and Ecoanalítica  
\*Through official mechanisms.

During the first seven months of the year, we estimate a shrink of 61.4% on the disbursements of foreign currency through the official mechanisms, compared to the same period of 2014. This shrink in the flow of foreign currency to the private sector is, with the lack of exchange market policies, one of the main factors that cause the depreciation of 70,3% of the non-official dollar, in this period.

In line with this higher FX rate. The recent depreciation of the non-official FX has an impact on the weighted FX of the Venezuelan consumer. This effect, so far this year, has caused a variation of 382.1% in the consumer FX. However the depreciation of this FX not only affects negatively the consumer also do not reflect any fiscal benefits, which is absurd in this macroeconomic scenario.

Because the parliamentary elections are just around the corner, we expect that the government will take some actions to increase his incomes and to reduce the scarcity and the shortages of different goods. Therefore the private sector can experiment an improvement in the disbursements of foreign currency, especially those firms who imports priority goods, nevertheless, we do not see a change in the tendency of the non-official rate.

**ECONOMIC TIPS**

**LatinFocus Consensus.** The results of the August survey 2015 shows that the consensus of the analysts is a contraction of Gross Domestic Product (GDP) this year of 6.3%, along with an inflation of 150.6%. Also the results provide that at the end of 2015 the central Government deficit is expected to be close to 6.6% of GDP. Regarding the average price of the Venezuelan Oil Basket (VOB) they expect that will be around US\$54.0/bl. Finally, they consider an unemployment rate of 9.2% for this year.

**Meager increases.** According to the data that we have at **Ecoanalítica**, the allocation of foreign currency to the private sector via official mechanisms averaged US\$51.8 million/day in July, a slight increase of 11.6% compared to the previous month, when it was US\$46.4 million. However, when compared to July last year (US\$146.1 million), there has been a drop of 64.5%.

**CENCOEX is giving less and less.** The amount of foreign currency allocated via the National Foreign Trade Center (CENCOEX) came to US\$46.1 million/day in July, an increase of US\$2.5 million compared to the previous month (US\$43.6 million/day), in other words a reduction in allocations of 40.6%.

**SIMADI nowhere near SICAD II.** In July, the Marginal Foreign Currency System (SIMADI) allocated US\$4.2 million/day on average, an increase of 50.0% compared to the previous month, when it allocated US\$2.8 million/day. However, when compared to the amount allocated via the Alternative Foreign Currency Exchange System (SICAD II) in July last year (US\$31.5 million/day), there has been a drop of 86.7%, which shows that SIMADI is nothing like the former mechanism.

**The lack of action is from choice.** Economic theory teaches us that, when a good becomes scarce, its price should increase. In Venezuela's foreign exchange scheme, that logic does not seem to apply. With a drop in revenues of around 50.0%, the CENCOEX exchange rate (VEF 6.30/US\$) has not been changed, the SICAD exchange rate has only depreciated by 6.3%, going from VEF 12.0/US\$ to VEF 12.8/US\$, and the SIMADI exchange rate has depreciated by 14.0% since it was created, revealing that the foreign exchange scheme follows a logic that is very different from economic logic.

**Strengthening relations with China.** A total of 11 Chinese companies reached agreements with the government last week with a view to "helping the economy and

Venezuelan production.” According to the representative of Sany Group, Wang Heng, the ultimate purpose of these agreements is to “*strengthen the economic development in the country*” through technology and the transfer of know-how for production in the food, infrastructure, and telecommunications sectors.

**There ain't no such thing as a free lunch.** However, the agreements establish that Petróleos de Venezuela (PDVSA) is to grant concessions for Chinese businessmen to exploit 1,000 oil wells in the Orinoco Oil Belt. In addition, Venezuela is to hand over natural gas, steel, iron and aluminum from the basic industries to the Chinese companies by way of payment.

**We need new models.** At the meeting with the Chinese, President Nicolás Maduro explained that Venezuela requires three economic models, which he defined as follows: a new business model for state-owned and private companies; a model for updating and improving production; and a new technological model. “*We need considerable support in the entire distribution system, logistics, and in the entire sector in general,*” he said.

**Even though they hide them...** The outlook for Venezuela continues to get worse. JP Morgan has changed its projections for the performance of the Venezuelan economy and forecasts a much more serious crisis than was expected. Previously it forecast a contraction of 5.5% of GDP for 2015, now it is calculating a drop of nearly 8.0%. It also points out that the lack of government statistics has not prevented negative figures from being forecast.

**Not even the sky is the limit.** Inflation was another of the variables that JP Morgan revised. Previously the investment bank had established that inflation would close the first quarter of 2015 (1Q2015) at 124.0%, now it has established inflation of 140.0%, in other words an increase of 16 percentage points. Moreover, it forecasts that inflation could close at around 200.0% this year. The report also states that there is nothing to indicate that official statistics will be revealed any time soon in order to be able to evaluate the figures.

**Eight and still counting.** The delay in publishing figures by the Central Bank has been in vogue in recent months. The last official information available on the GDP 3Q2014; on inflation, it is for December last year; and as for shortages, the last figures are for March last year. The failure to publish official figures makes taking decisions difficult and creates uncertainty, which, in turn, generates negative expectations with regard to the functioning of the economy.

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## OIL TIPS

**Selling less and buying more.** According to a report from the Venezuelan American Chamber of Commerce and Industry (VenAmCham), Venezuela's oil exports to the United States (US) posted a drop of 47.6% (y-o-y) in the first six months of 2015 to US\$15.1 billion. On the other hand, VenAmCham reported that oil imports from the United States came to US\$1.25 billion in the 1H2015, 35.0% more than in the same period in 2014.

**Full steam ahead.** According to OPEC's latest monthly report, OPEC production averaged 31.51 million barrels a day (mb/d) in July, an increase of 100.7 kb/d compared to the previous month. Production increased in Angola, Iran, Iraq, Saudi Arabia, and the United Arab Emirates, whereas it contracted in Qatar, Ecuador, Libya, Nigeria, and Venezuela and remained unchanged in Kuwait.

**Of little weight.** OPEC's report estimates that Venezuela's oil production was 2.37 mb/d in July, an increase of 1.3% compared to the 2.34 mb/d for the same month in 2014. According to OPEC, Venezuela's production currently accounts for 7.5% of the cartel's output.

**Still high.** OPEC estimates that commercial crude inventories in the OECD countries fell by 18.1 mb in June to 2.86 billion barrels, although they were 6.9% higher than in June 2014 and they remained 185 mb above the average inventory for the past five months. In terms of days of coverage, the Organization for Economic Co-operation and Development (OECD) inventories were sufficient for 62.1 days, 3.1 days more than the average for the past five months.

**The big buyers are taking advantage of the low prices.** Preliminary data handled by OPEC show that commercial inventories in the United States (the world's largest consumer of oil) increased by 1.3% in July to 1.27 billion barrels (up 13.1% from July 2014). As for China (the second largest consumer), its inventories were 412 mb in June (latest data available), an increase year-on-year of 4.1%.

**Increased demand.** OPEC revised upwards its forecast for growth in world demand for crude in 2015 (by 90.0 kb/d) to 1.38 mb/d, due to higher consumption than expected in the developed economies of America and Europe in the 1H2015. It expects world demand for oil to grow by 1.34 mb/d to 94.04 mb/d in 2016.

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**Producing less.** According to the US Energy Information Agency (EIA), oil production in the United States was 9.44 mb/d in July, a drop of 1.1% compared to the previous month and of 7.9% compared to July last year. The agency forecasts that US crude production will average 9.4 mb/d in 2015 and will contract to 9.0 mb/d in 2016, 0.1 mb/d and 0.4 mb/d less, respectively, than the figures forecast last month.

**Lower prices.** The EIA expects Brent and WTI prices to average US\$54.0/bl. and US\$49.0/bl. this year, which means that it has corrected its July projections by US\$6.0/bl in both cases respect there projection from last month. In 2016, it expects Brent to post a price of US\$59.0/bl. and WTI to reach US\$54.0/bl. According to the agency, the current values of futures and options contracts suggest that the market expects a price of between US\$34.0/bl. and WTI to close 2015 at US\$64.0/bl.

**At record levels.** According to the EIA, the demand for crude from US refineries surpassed 17.0 mb/d in July, a level not seen since this indicator started to be measured in 1990. This record consumption reflects both greater refining capacity and a higher rate of usage by refineries. Low crude prices and strong demand for products (especially gasoline) have resulted in margins that encourage the use of and investment in refining facilities.

**Sooner rather than later.** Big actors in the oil industry and US congressmen could push for a vote to lift the ban on crude exports from the United States, something that could happen in September and be ratified by the Senate in early 2016. More than a dozen oil companies and legislators maintain that permitting crude exports without any restrictions would eliminate the distortions in the market and make US oil production more efficient.

## BUSINESS SECTOR TIPS

**The people are hungry.** The president Nicolás Maduro, convened a new SICAD auction of US\$150 million for machinery and equipment destined to agricultural production. *“I’m ready to approve every resource that is necessary and bring everything that is needed”* Maduro stated. The president urged the producers to expand their grains hectares and to increase their livestock production. *“We need to organize to satisfy our people’s alimentary needs”* he concluded.

**They haven't solved it.** The NGO *Transparencia Venezuela* accused Minister for Food Carlos Osorio of “*lying to the country*” when he promised that the government would solve the problem of shortages of basic products in two months. “*As part of the monitoring we do of the Food Mission, we found empty shelves and endless lines outside grocery stores of the state-owned and private network,*” it reported.

**Farms at a standstill.** The president of the Táchira Poultry Farmers Association, Rafael Moreno, said that the shortage of concentrate feed and medicines has caused the closure of more farms in Táchira state. Besides being scarce, the little concentrate feed that is available has gone up considerably in price. “*The situation is very difficult. It's possible that most of the farms will close because we are unable to produce at those prices,*” said Moreno.

**Putting distance between us and “imperialism.”** According to the US Census Bureau, trade between Venezuela and the United States closed 1H2015 at US\$12.95 billion, a reduction of 36.6% compared to 1H2014. On the side of Venezuela's exports to the United States, they came to US\$8.42 billion, down 46.6% from the same period last year.

**Another measure rejected.** According to the National Workers' Union (UNT), the government import substitution commission announced by President Nicolás Maduro will not be an effective mechanism for solving the crisis as its main members are also members of the economic cabinet, which, according to the UNT, will create a conflict of interests. The labor union representatives said that what is needed is for the present government service employees to be changed and new people appointed.

**Waiting with production lines stopped.** The president of Fedecámaras, Francisco Martínez, claimed that the great responsibility of the public and private sectors is to achieve a dialog with results. “*There should be a platform of objective, sincere dialog; but a dialog with agreements, agreements with action, and action with results,*” said Martínez. He also insisted on the problem of replenishing inventories being reported by Venezuelan businessmen, which is resulting in long lines of shoppers at stores and supermarkets.

**A rapprochement with the Executive.** After having conversed with representatives of the National Assembly, president of Fedecámaras, Francisco Martínez, stated that there was a possibility of holding a meeting with President Nicolás Maduro. “*I think that it will be feasible to have a meeting with President Maduro; it's necessary to have a dialog with agreements and actions that produce results,*” stated Martínez.

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**Creating expectations.** High expectations have been created in private production sectors and parliament in view of the progress made in the dialog between the National Assembly and businessmen. Although associations such as Conindustria and Consecomercio have still not been called to take part in the encounters, they are waiting for the call. The president of Consecomercio, Cipriana Ramos, said they hope there will be a meeting with the government trusting that economic policies that work would be established.

**Prices in line with reality.** The president of the Federation of Artisans and Micro, Small and Medium Industrialists of Venezuela (Fedeindustria), Miguel Pérez Abad, claimed that is necessary to implement a system of “*harmonizing prices*” that would restore the stability of Venezuelans’ purchasing power. “*It’s not selling products at the price set by “bachaqueo” (resale of subsidized products at inflated prices), but an average rate that stops that stimulus,*” he explained.

**New car sales down by 8.8%.** According to figures from the Venezuelan Automotive Chamber (CAVENEZ), July new car sales down 8.8% compared to the same period of 2014. 12,418 units have been commercialized from January to July 2,597 more vehicles (26.4%) than the same period of 2014. Out of the total sales, 12,352 vehicles were manufactured inside the country, while 62 were imported. These groups registered an increase of 26.7% and a decrease of 9.6% respectively.

**Production of new cars increased 128.3%.** According to data released by CAVENEZ in July the production of new cars increased 128.3% over the same period last year, standing at 2,000 units. Therefore, cumulative production from January through July 2015 was 12,922 units, an increase of 83.6% with respect to the 7,037 units assembled in the same period in 2014.

**Seeing is believing.** Minister for Food Carlos Osorio held a meeting with the Vice Presidency for Security, Agro-food Sovereignty and Supply at which “*projects for increasing the production, distribution, and supply of and access to products*” were evaluated. Minister for Agriculture and Lands Yván Gil and other members of the Ministry for Food were present at the meeting.

**“Now Venezuela belongs to China.”** Representatives of the Ministry for Agriculture and Lands received a delegation from the Chinese company Yuanlongping High-Tech Agriculture, which produces hybrid rice and corn seeds. During the visit they toured plots of land where seeds certified by the company could be produced. The production agreement with the consortium could be concluded before the end of the year.

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**A glimmer of light.** In an official communiqué, Empresas Polar announced that it hopes to resume production of beer and malt sodas at the facilities affected by the lack of raw materials, which contribute 25.0% of domestic production. The company said that the shipments of raw materials are already in port. However, it did not say for how long these shipments of raw materials would cover domestic demand.

**“Fixing up” Guri yet again.** Corporación Eléctrica Nacional (Corpoelec) has issued a call for bids from domestic and international companies to continue the project to revamp Guri Hydroelectric Power Station at a cost of US\$1.2 billion. Financing for executing the project is to be provided by the Inter-American Development Bank (IDB).

**Now there’s no detergent.** In an internal communiqué, Colgate Palmolive announced the “*indefinite shutdown*” of the detergent powder production line starting on August 10. The communiqué states that this is due to the fact that the cost of packaging material has gone up by more than 300.0% since September 2014, as a result of which the regulated retail price of the detergent does not cover production costs.

**Something good among all the bad.** Minister for Overland Transport and Public Works Haiman El Troudi did an inspection run of the new stretch of the Caracas Metro line that will connect up the Zona Rental station (line 4) and the Bello Monte station (still under construction, line 5). During the inspection run, El Troudi said that the tunnel is 1.5 km long, cost US\$300 million, and created 2,000 direct jobs.

## WORLD ECONOMY TIPS

**Positive signs.** According to the US Bureau of Labor Statistics, nonfarm payroll employment rose in July and there was an upturn in wages after they unexpectedly stagnated in June. This improvement in the economy could open the doors to a raise in interest rates by the Federal Reserve (FED) in September. However, a number of specialists forecast that there will not necessarily be a change in the interest rates, at least this year. The Bureau also reported that the unemployment rate stayed at a seven-year low (5.3%).

**Surprise!** On August 11, the yuan posted its biggest drop in more than two decades and hit a three-year low after the People’s Bank of China surprised international markets and devalued the yuan by nearly 2.0%, from CNY 6.11/US\$ to CNY

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6.22/US\$. Moreover, what the bank described as a “*one-off free-market devaluation*” was classified by several analysts as a measure to make China more competitive.

**Less trade but a bigger surplus.** According to China’s General Administration of Customs (GAC), foreign trade in the first seven months of the year contracted by 7.3% year-on-year, going from US\$2.43 trillion to US\$2.27 trillion. Exports also fell, by 0.9% year-on-year, and imports contracted by 14.6%, which resulted in the trade surplus for January-June being double the surplus posted for the same period in 2014.

**Deflationary pressures continue.** Even though China has implemented “economic adjustments” in recent weeks, producer prices fell by 5.4% year-on-year, according to China’s National Bureau of Statistics. This behavior indicates that the economy is still facing deflationary pressures, which means that the government still has room for implementing more stimulus measures in the local economy.

**An encouraging recovery.** China’s National Development and Reform Commission (NDCR) reported that the real estate market was likely to continue to improve in the 2H2015, a good sign for the struggling economy. “*In the second half, the recovery trend in the property market is likely to be sustained, which will create a better situation for consumer prices and support factory-gate prices,*” said the agency.

**Looking for a replacement.** Following the harsh criticism leveled at the chairman of the Securities Regulation Commission of China (CSRC), Xiao Gang, for his “suspicious” handling of the boom and bust in Chinese stock prices, the Chinese Communist Party has started to look for a possible replacement. The search for a successor has started unusually early, as Xiao Gang’s term is not up until the end of 2018. This reflects the party’s dissatisfaction with his performance.

**Developed economies are recovering.** According to OECD monthly leading indicator, a synthetic index that attempts to flag turning points in the international economy, economic growth is showing signs of firming in France, Italy, and in the euro zone in general, but seems to be slowing down in the US and the United Kingdom. Trends also point strongly to a loss in the growth momentum in Brazil and China.

**Even Germany is worried.** According to a survey by the Centre for European Economic Research (ZEW), confidence among German analysts and investors

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declined in August due to concerns over economic instability and the geopolitical situation. According to the research center, economic sentiment fell by 4.7 points to 25.0 points in August compared to July when it was 29.7 points.

**Compulsory primaries.** On August 9, Argentina held general primaries to elect the next candidates who are to run for president on October 25. Unlike Venezuela, in Argentina primaries are compulsory for all political parties that want to nominate a candidate. The parties that do not get more than 1.5% of total votes at the primaries do not take part in the presidential elections.

**The home team won.** The government party won the primaries in Argentina with 38.5% of the votes. The incumbent party faced practically no internal opposition and postulated a single candidate, Daniel Scioli. On the side of the opposition, the party *Cambiemos* obtained 30.0% of the votes for all its candidates combined, with Mauricio Macri emerging as the winner, and the opposition party UNA obtained 20.0% of the votes, with Sergio Massa as the winner.

**No sure winner.** In order to win the elections without going to a second round, the winning candidate of the Argentinean presidential elections will have to get 40.0% of the votes with a 10 percentage point lead over the candidate with the second largest number of votes or get more than 45.0% of the votes (in this case, the lead over the candidate with the second largest number of votes would not matter). If there is a second round, the general elections would be held on November 22 and the new president would take office on December 10.

**In Argentina the opposition is united.** Forecasts by our allied consulting firm in Argentina, Ecolatina, stipulate that, while the government party made a very good choice and continues as the option with the highest likelihood of winning, the situation is still open. In other words, given yesterday's results and projections for October based on those results, there will probably be a second round in Argentina. In that scenario the possibilities of the government party winning are reduced as the opposition would form a united front.

## POLITICAL TIPS

**Shotgun unity?** According to the United Socialist Party of Venezuela (PSUV) parliamentary election campaign chief, Jorge Rodríguez, seven new political parties joined the Great Patriotic Pole. *Organización Renovadora Auténtica* (ORA), *Piensa*

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*en Democracia (Piedra), Poder Laboral, Podemos, Partido Joven, Juan Bimba, and PRT are the seven parties that joined the government coalition, which has a total of 32 parties with 334 candidates who are to run at the parliamentary elections.*

**Is Diosdado scared?** The president of the NA and vice president of the PSUV, Diosdado Cabello, admitted that people's discontent is putting a favorable outcome for the government at the parliamentary elections at risk. *"The people may have fallen out with us, but they can never vote for the right. The Chavista isn't going to vote for the opposition, but he could stay at home. That's what the PSUV patrol groups are for,"* said Cabello.

**Valiant youngsters.** Student leaders at *Universidad Católica Santa Rosa (Ucsar)* and *Universidad Santa María (USM)* stated that *"these elections will not be like previous ones. We'll defend (them) ballot by ballot; we'll count vote by vote."* They proposed an electoral route with five key points: a purge of the Electoral Roll; qualified international observation; capitalizing on the votes of the undecided; closing the polling booths early (at 4 p.m.); and safeguarding the votes.

**A desperate measure.** Leaders of COPEI went to the party's national headquarters with the purpose of *"saving the party"* and asked the ad hoc board of officers imposed by the Constitutional Chamber to withdraw the remedy filed before the Supreme Tribunal of Justice that resulted in the removal of the party's board of officers headed by Roberto Enriquez. *"When these gentlemen arrived, COPEI had 27 candidates; today we have none,"* said the party's secretary general.

**And the fighting continues.** Former Deputy María Corina Machado said that the Democratic Unity Alliance (MUD) disqualified her when it did not accept the nomination of Isabel Pereira as a candidate to run in her stead at the parliamentary elections. *"These have been difficult days. Disqualification first by the regime and then by the Democratic Unity Alliance, which has disqualified my voice through Isabel Pereira. A huge injustice has been committed,"* said Machado.

**A "fruitful" meeting.** Cuban President Raúl Castro and Vice President Jorge Arreaza met in Havana to discuss bilateral and regional issues, among them the border dispute between Venezuela and Guyana. *"Castro and Arreaza expressed their satisfaction at the excellent state of bilateral relations and their continuing positive development,"* announced an official communiqué. Arreaza is doing a tour of the Caribbean countries to explain Venezuela's position on the territorial dispute with Guyana.

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**Trying to mediate.** UN Secretary General Ban Ki-moon is to try to get Guyana's President David Granger and his counterpart Nicolás Maduro to dialog regarding the border dispute over the Essequibo region at the next General Assembly of the United Nations. Meanwhile representatives of Guyana and Venezuela maintain their positions, as a result of which Bank Ki-moon is planning to send a mission to Caracas and Georgetown to facilitate a rapprochement.

**Using intimidation as a weapon.** The NGO *Espacio Público*'s half-yearly report on the situation of the freedom of expression in Venezuela highlights intimidation as the most frequent violation of this right, with a total of 37 cases registered (25.0%), followed by verbal harassment (22.4%) and censorship (19.0%). Intimidation and verbal harassment are more frequent in journalistic coverage of the lines of shoppers hoping to buy basic products, according to the NGO.

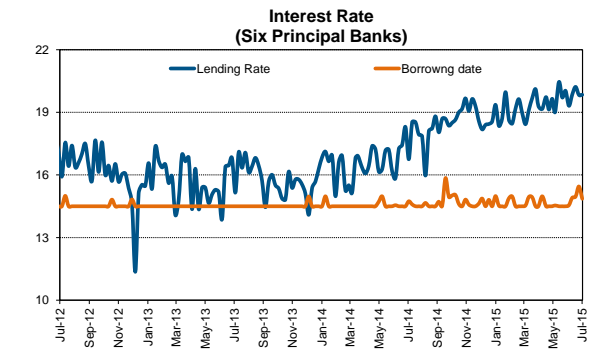
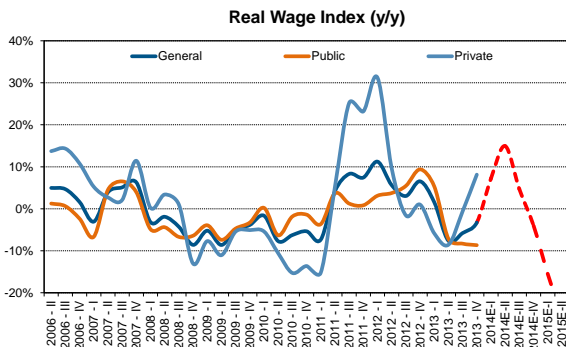
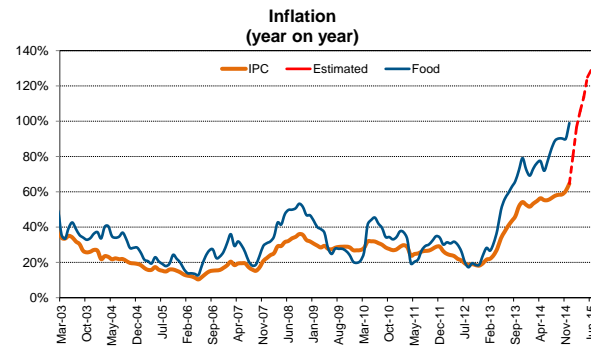
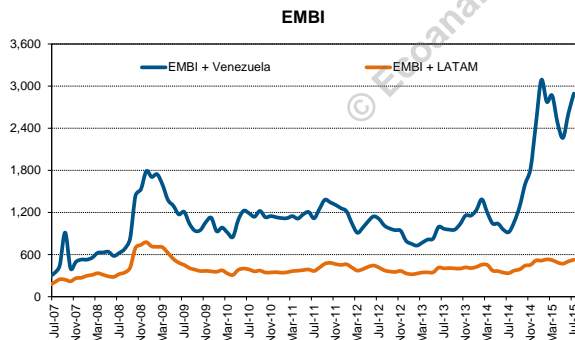
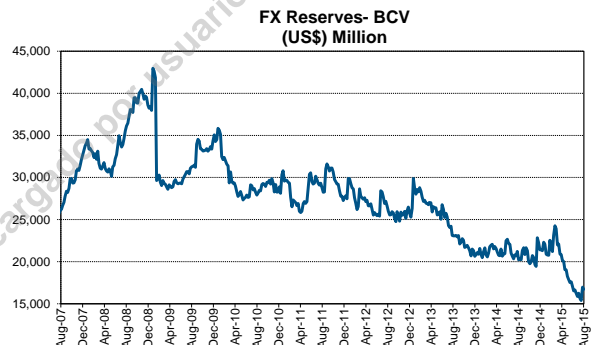
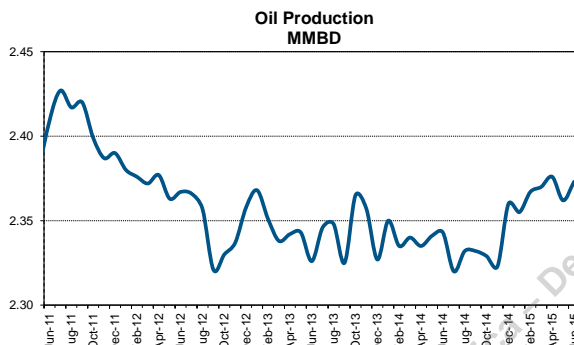
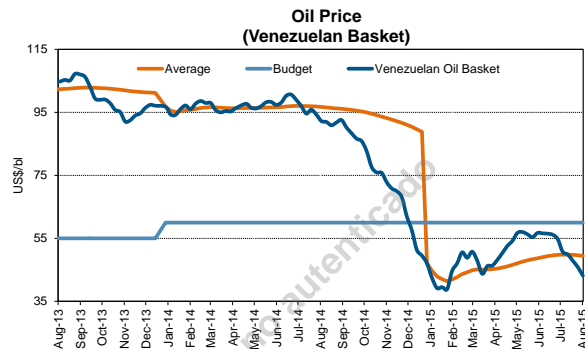
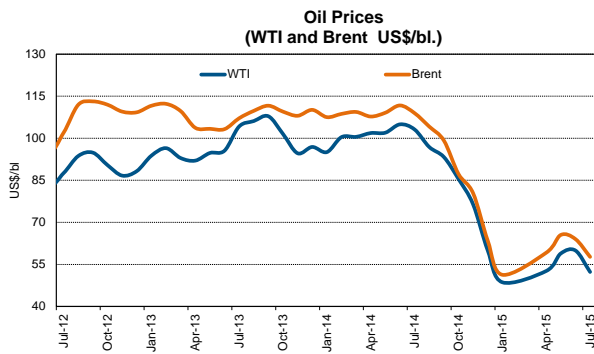
**A pertinent analysis.** The president of Datanálisis, Luis Vicente León, stated that *"the crisis leaves no room to continue playing at nothing's happening or at the political discourse of imaginary culprits,"* referring to Venezuela's present situation in which there are high rates of inflation (189.2% in 2015 according to our estimates) and shortages. *"Without rational economic adjustments, the government runs an enormous risk of losing the 'economic war' that it, itself, invented,"* concluded León.

**Could it be that they've repented?** The constitutionality of the decision not to choose the representatives to the Latin American Parliament (Parlatino) by means of universal, direct and secret votes is to be reviewed by the Supreme Tribunal of Justice. The Electoral Chamber's Trial Court admitted the appeal for annulment filed by Parlatino Deputy Timoteo Zambrano on behalf of the Democratic Unity Alliance.

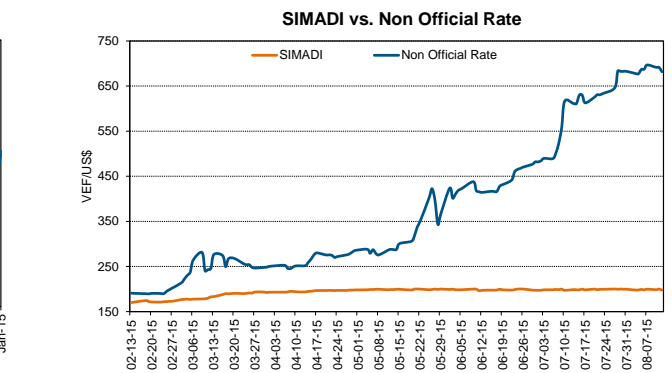
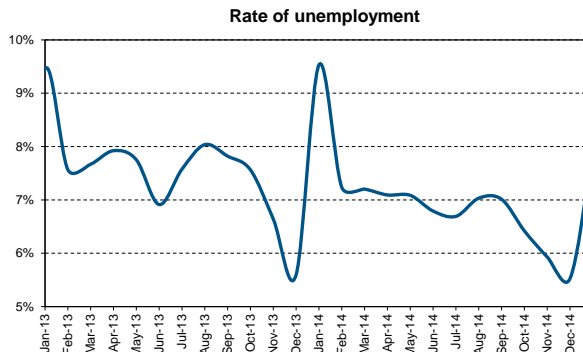
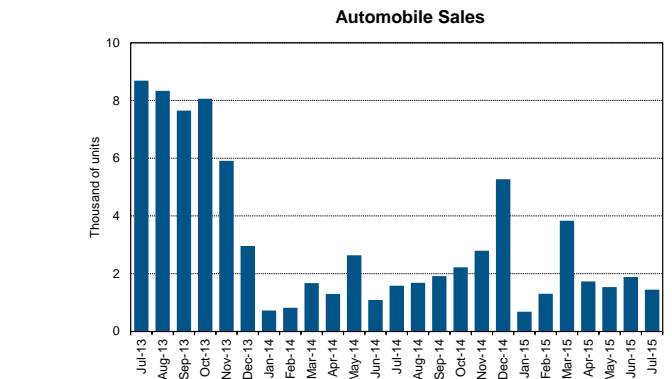
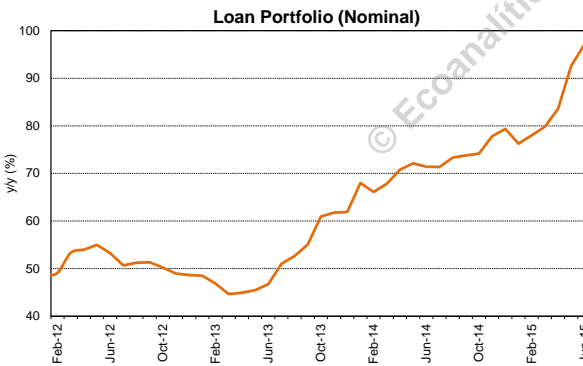
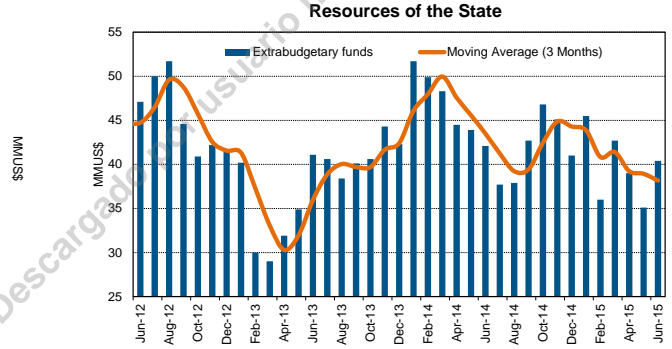
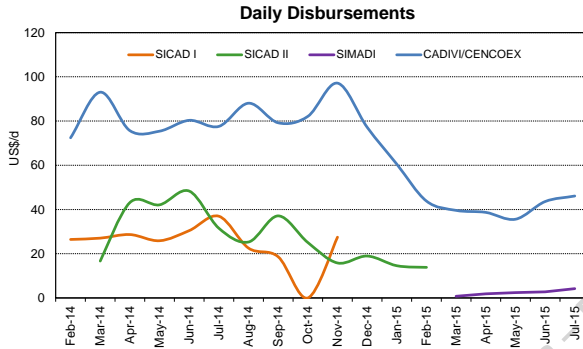
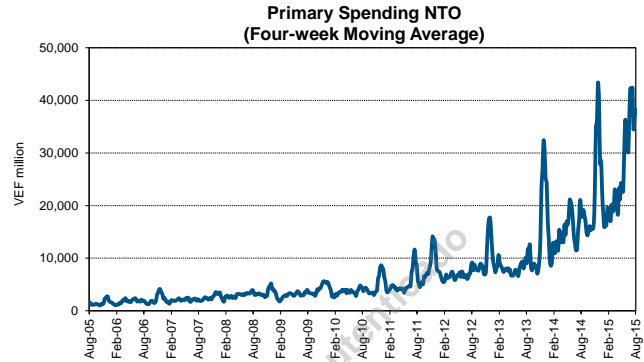
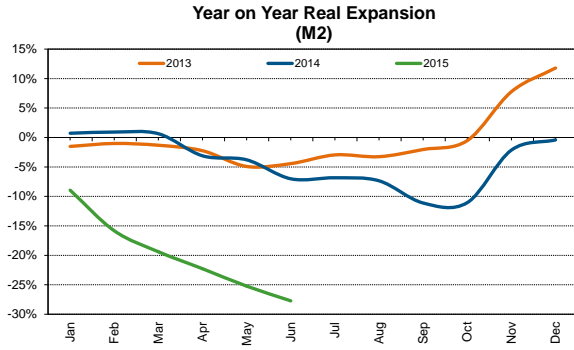
## LEGISLATIVE TIPS

**An Electric Power General Staff.** According to a presidential decree published in *Gaceta Oficial* No. 40,720, the Electric Power General Staff has been created. This body will support the President in taking strategic decisions having to do with electric power and will be made up of the Ministers for Electric Power, the Economy and Finance, Defense, Homeland Affairs, Oil and Mining, and Industries, the Sectorial Vice President for Planning and Knowledge, the Sectorial Vice President for Development of Territorial Socialism, the Commander General of the Bolivarian National Guard, and the presidents of PDVSA and Corpoelec.

**ECONOMIC OVERVIEW**



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