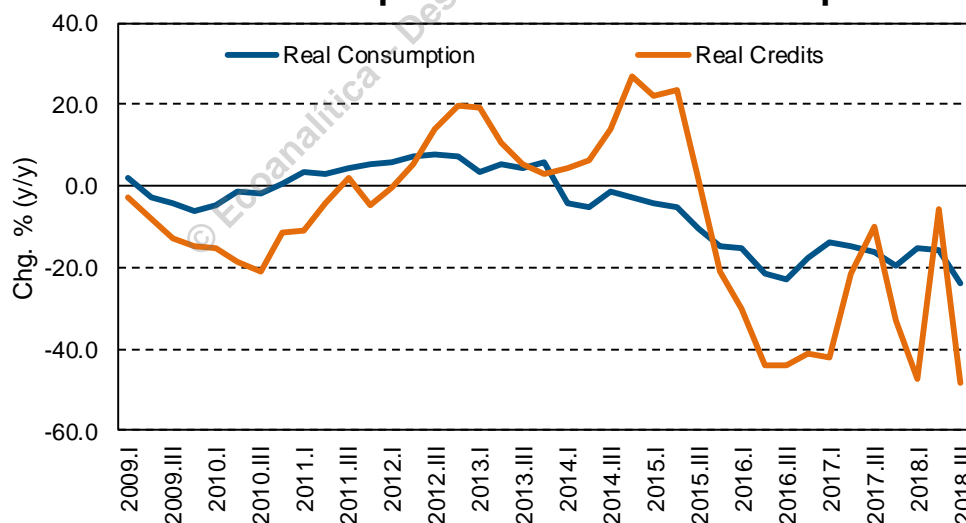


Riding the wave reloaded: Business strategies in the new Venezuela

Since the start of the Recovery and Economic Prosperity Plan (REPP) in September 2018 and then the new sanctions applied by the Trump administration on PDVSA, the Central Bank of Venezuela, and the state-owned banks, not to mention several members of the Maduro administration joining the list of Specially Designated Nationals (SDNs), our economy has mutated into something “new.” A combination of restriction on credit, a more extensive use of foreign currency as a common means of exchange, payment of taxes brought forward, changes in the foreign exchange game rules, and the persistent real appreciation of the exchange rate has meant that, today, businesses have to constantly change their strategies in order to continue to deal with a macroeconomic reality that is reluctant to improve.

Consumption Credits vs. Consumption



Sources: BCV, Sudeban and Ecoanalítica

In our Weekly Report Number 33, 2018¹, we listed several measures private businesses could take to deal with the expected effects of the REPP; however, they did not take into

¹Weekly Report 33. *Riding the wave: Strategies for fighting the “Maduro Plan”*, August 2018.

account the huge impact that the legal reserve requirements (which were to become more onerous throughout the remainder of 2018 and the first few months of 2019) would have on domestic demand for both real and financial assets. Given this situation, at **Ecoanalítica** we have broadened our battery of initial guidelines in a bid to minimize losses in the new macroeconomic context and guarantee the survival of the business.

How have strategies changed?

It is possible to identify some major areas where companies' strategies may have changed in response to the new macroeconomic situation. A major change has occurred in the *mechanism companies use to set prices*. So, much of the slowdown we have observed in local inflation comes from the natural response to lower demand on the part of businesses. With credit becoming increasingly scarce, consumers have had less money with which to buy goods and services. Companies, fearing a dramatic loss of market share, decided to be less aggressive when adjusting prices, unleashing inflation that was "slowing down" but still high.

Before	Now
Price over market share.	What is the elasticity of the product?
Debt in bolivars for exchange coverage.	Beware of bolivars indebtedness.
No sales credit.	Evaluate options such as Consignation.
Local production.	Importing is key.
Prices "dolarization".	Inflation and devaluation Pareto.

While this action contradicts our initial vision of putting adjusting prices above market share, its implementation responds to a new reality. In a context of less aggressive inflation, raising prices with the same level of aggression loses validity to some extent, particularly when there are fewer competitors doing it. However, refraining from putting up prices when inflation is still high in annual terms would put companies at a disadvantage in terms of the earnings they generate. So, any adjustment should take into account an evaluation of how demand would change in different price scenarios, bearing

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in mind price-demand elasticity². This would allow companies to not fall behind in adjusting their prices, while permitting them to adjust them to levels that would not exacerbate losses due to lower demand.

A second element has to do with *borrowing in bolivars*. Before the REPP, in a situation of hyperinflation with no adjustments in nominal prices, credit was a sure source for acquiring foreign currency. Now, with the legal reserve policy, the banks have chosen to grant a large portion of the loans available at effective rates that are higher than the rate at which the bolivar has depreciated.

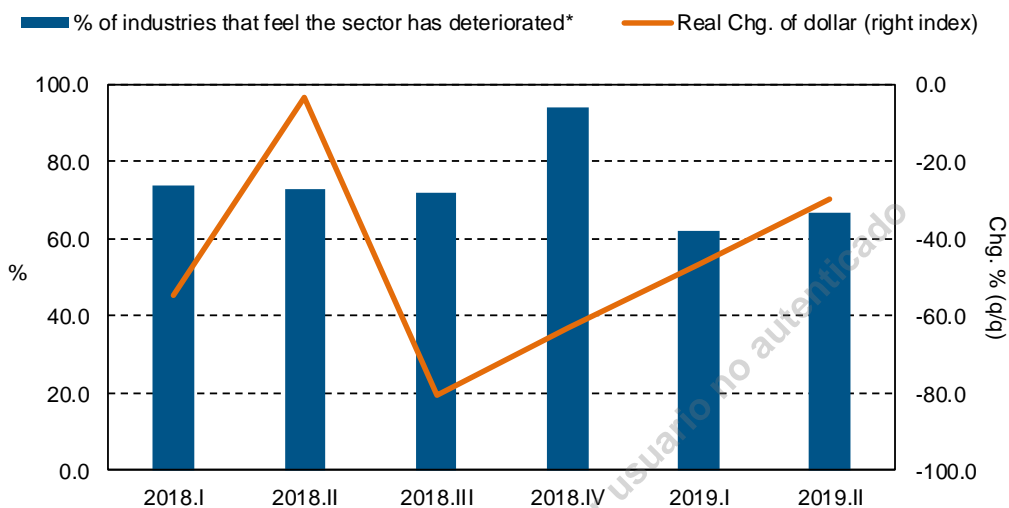
In other words, the few companies that had access to loans faced a very high borrowing cost compared to what they could obtain from reselling the foreign currency acquired using those loans. So, prudence when borrowing with a view to creating coverages should be the norm in environments where the exchange rate is showing little variation.

The bigger real appreciation of the exchange rate has also resulted in *importing being the key* (at least for now), given the reduction in local industry's capacity for generating goods and services. It will be remembered that a low exchange rate means that the cost of importing is also low in relative terms compared to the expenditure required to produce domestically. So, given the slowdown in the exchange rate due to the legal reserve requirements and the contraction of our economy, companies can give priority to the use of imports as a mechanism for guaranteeing higher levels of production in the future.

² Basically, elasticity measures the changes that are expected in the demand for a product as a result of each 1% increase in its price.

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Industrial sector sentiment



Sources: Conindustria, LocalBitcoin and Ecoanalítica

*Since the previous year

On the other hand, a usual recommendation to companies was to *eliminate schemes that involve handing over inventories on credit*. For many businesses whose operating model prevented it, migrating to this way of placing inventories did not seem to be trouble-free. So, this strategy has mutated to using sales on consignment as a means of placing inventory, a mechanism that offers greater flexibility when it comes to negotiating and permits faster replenishment by the final seller.

Finally, one aspect that has changed is the *influence of foreign exchange pressures on prices*. Quite apart from the pass-through effect of the variations in the exchange rate on prices (particularly in the case of imported goods), previously many companies tended to set prices based on the dynamic of the dollar. In our previous recommendations, we warned of the dangers of “indexing” prices exclusively to the ups-and-downs of the exchange rate. Now, with a prices/exchange rate ratio that fluctuates constantly, setting prices solely based on the dollar is not precisely the best strategy.

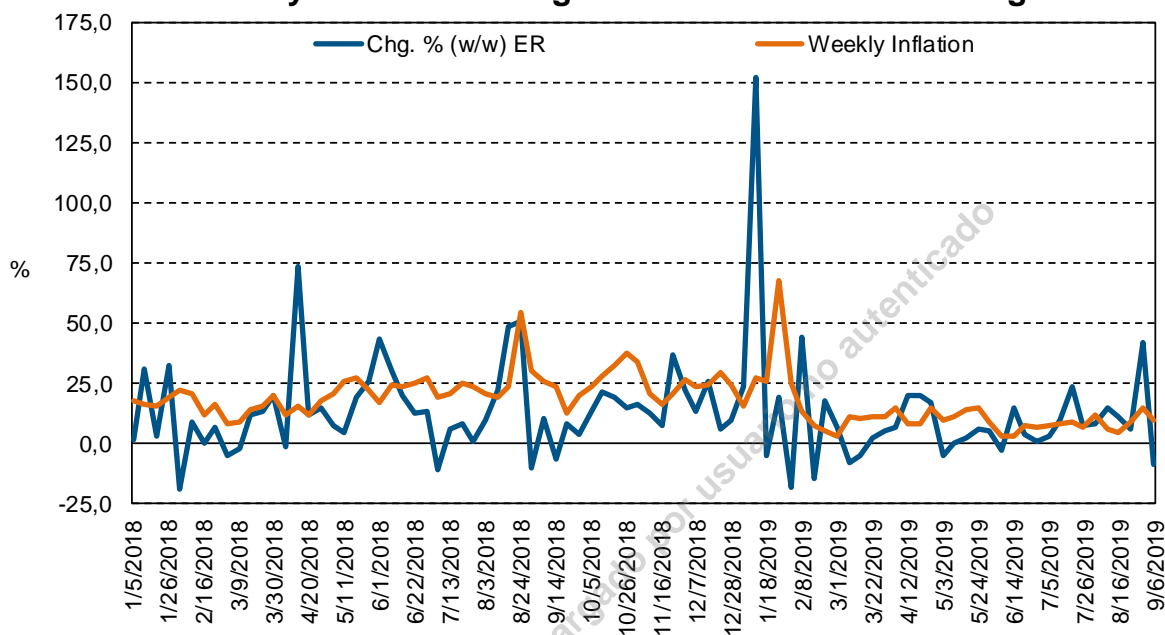
Given the uneven behavior of prices and the exchange rate, the present dynamic is forcing companies to employ more of a hybrid strategy, acting based on the cost imposed by applying prices or overlapping costs based on the evolution of inflation against the exchange rate, or vice versa.

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Weekly Inflation vs. Chg. % of the Unofficial Exchange Rate



Sources: LocalBitcoin and Ecoanalítica

What action should be taken?

In this environment of new major shifts in the spheres of action there are several mechanisms that local companies can use to guarantee their survival in the medium term:

1) Determining market sizes and customer segmentation

The fact of facing a smaller economy will force companies, under the present conditions, to precisely define their target consumer. This will allow them to give specific dimensions to their demand and, hence, their profits. In this environment, Construction, Banking and Insurance, and Manufacturing are the sectors that must pay most attention to the direct consumer, since they are likely to face reduced demand (bigger contractions in production together with less aggressive inflation).

Segmenting the clientele can turn out to be equally adequate, as this would allow the companies that are able to diversify the goods and services they offer to set prices in line with the profile of each customer, to whom they would direct a product "adjusted" to their purchasing power. Put another way, they should aim to discriminate prices based on the quality of each product and target the consumer who can afford it. On this point,

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companies in some specific sectors can take advantage of a reduced supply resulting from the departure of some of their competitors³.

2) Simplifying production process & products portfolio. Optimizing costs due to idle capacity

This approach maintains the line of our previous battery of strategies in which we suggested, in the initial context of the REPP, a thorough revision of cost structures in the light of the new measures. The argument was that simplifying production chains would mean a reduction in expenditures, which would have a positive impact on profits. A more limited portfolio focused on high-turnover products would have a similar impact, although portfolio diversity is also an opportunity for generating higher profits. So, companies need to determine what “minimum possible diversity” would be in their case.

Cost analysis also needs to include a revision of the resources used in the generation of goods and services. Now more than ever, the inefficient use of resources becomes progressively more costly and, therefore, should be avoided. **Ecoanalítica** has already given the alert regarding part of this approach in its previous report, where it was suggested that the focus should be on policies for retaining personnel in the technical, operational and financial areas of the business. Now this strategy should also include decisions regarding which inputs to import or which capital investments should be made so as to guarantee the production process in the most efficient manner possible.

Not only that, by modifying the cost structure using these measures, focusing on products that are “more easily” produced could offset potential losses in the case of goods the demand for which is highly sensitive to increases in prices (and, therefore, supports fewer price increases). As we have stressed in the past, papers such as Swanson’s (1989)⁴ state that revising costs in the middle of episodes of hyperinflation is more effective for increasing profits than for increasing sales.

3) Optimum design for foreign exchange coverage

Due to the volatility shown by the exchange rate in recent months, coverage mechanisms have become more complex. In other words, in a situation where the price of foreign currency maintains steady growth, the costs of coverage in bolivars can be high. This is particularly true when prices do not fully reflect the increase in the exchange rate,

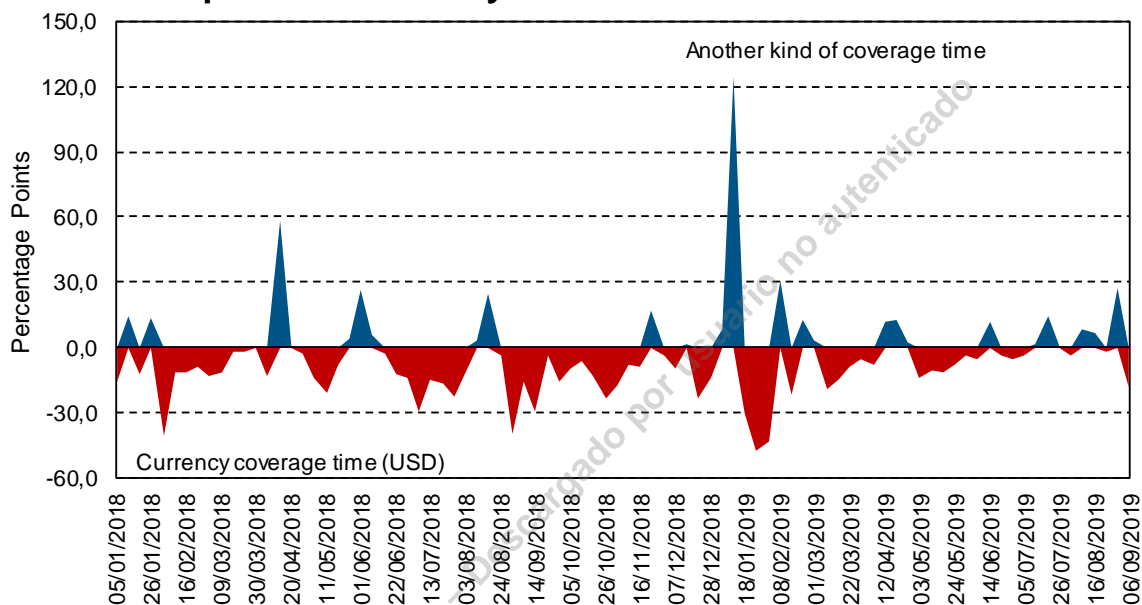
³ According to the latest survey of private manufacturing companies conducted by the Venezuelan Confederation of Industrialists (Conindustria) (2Q2019), the lack of competition was in the top ten success factors for companies in this sector.

⁴ Swanson, G, (1989), The Hyperinflation Survival Guide, University of Arizona, Figgie International.

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influenced by the drop in the demand for foreign currency (given the high prices) or by a bigger contraction in the sector.

Gap between Weekly Nominal ER Growth and Inflation.



Sources: LocalBitcoin and Ecoanalítica

So, coverage should not only focus on acquiring liquid foreign currency, but also on acquiring intermediate goods or inputs when the slowdown in inflation is the norm. This would not only allow companies to make use of these goods or inputs and generate a bigger supply of their products, but it could also be an additional source of income if they resell them once prices start to go up more aggressively. Likewise, if lower inflation precedes a less aggressive increase in the exchange rate, the funds obtained from reselling these items could be used to create coverages in foreign currency, given that foreign currency will have become relatively less expensive.

4) Adapting administrative processes to a bicurrency economy

As we have stressed in several of our reports, informal dollarization has marked local transactions in the past year. It is foreseeable, therefore, that companies will have to deal with larger inflows of both bolivars and foreign currency. With this in mind, maintaining accounting and operational order demands that each company adopts the best practices for handling its balance sheets in both local and foreign currencies. This will allow the company to evaluate the exposures of its business to the bounties of or weaknesses

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wrought by dollarization, particularly in terms of cash flow, payments to suppliers, and payments of bonuses, among other things.

Similarly, proper recording of operations will allow the company to track the origin of these funds, thus enabling it to veto operations that expose it to “indirect” consequences of US sanctions in the future and identify what effect this will have.

This last consideration is of vital importance given that, while these sanctions are aimed at actors in the public sector, their impact on actors in the private sector cannot be ruled out if said actors have commercial or financial relations with anyone on the list of SDNs or their associates.

5) Evaluating credit outside the local financial system

Unfortunately, given the effects that recent policies regarding the legal reserve requirements for the banking sector have had on prices, it is foreseeable that the government will not give way on its position, or at least not to the point where a resumption of credit activity to “healthy” levels is guaranteed. This means that the shortage of credit will continue to be the norm in the medium term.

Given this situation, what can be done? A good leverage option is to play the local stock market. Despite its size compared to other more developed markets, the yields shown by some instruments traded on the Caracas Stock Exchange have grown at a greater rate than the increase in the exchange rate. This means that investments that guarantee a high yield in the medium term could serve to provide leverage for a bigger purchase of foreign currency or goods whose prices have not increased greatly.

To a lesser degree, companies can take advantage of episodes when there are sharp increases in the exchange rate as a kind of “self-financing” mechanism by using the sale of foreign currency to acquire goods in bolivars that can be sold down the road at a higher price and then taking the proceeds to buy foreign currency at times when the exchange rate “resumes” its path of stable growth. Of course, for this to work, the episodes when the exchange rate goes up sharply would have to be short lived for the most part.

6) Giving a boost to sales and marketing. Investing in digitizing processes

Despite the decline in the local economy, the way the markets are developing at the moment opens the doors for each company to develop new sales and marketing strategies for its products. It has become increasingly commonplace to find companies, particularly in the commercial sector, that use social networks or the mass media as a portal for offering their goods and services.

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Given that they are relatively cheap compared to the alternatives, companies can give a boost to their sales and marketing departments by focusing on the use of these networks to advertise or to implement online sales mechanisms, with all that this implies in terms of infrastructure or human capital. Depending on the good being offered, this will contribute to inventory turnover at minimal cost. Likewise, increasingly automated or digitized processes are becoming essential, particularly in order to make inventory turnover more dynamic.

A surefire success?

Even though these strategies include measures that will mitigate the costs of the present macroeconomic imbalances, their success will depend on each company's capacity for reinventing itself in response to the changes. In point of fact, like the economy itself, the nature of these strategies can be modified partially or completely in the event that prices resume an aggressively inflationary path, if dollarization ceases or even if the United States imposes more stringent sanctions.

Unfortunately, much of this success will also be subject to the arbitrary actions taken by the regulatory authorities, such as adopting new price controls, for example, or exercising greater discretion when it comes to transactions in the foreign exchange market, thus defining the official or reference exchange rate. What does seem to be clear is that, regardless of what happens, there is no single path that must be followed. The new Venezuela continues to pose challenges, which means that the private sector will continue to come up with multiple solutions.

Luis Arturo Bárcenas

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WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week September	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Boards (VES/USD)²	21,228.48	-10.3	-11.5
	5th Week August	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	32.7	0.6	11.3
	2nd Week September	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	128.2	-0.5	126.2
	1st Week September	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.3	-0.2	-0.1
	5th Week August	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (MM VES)	13,216,772	6.3	19,851.9
Price of International Oil Baskets (USD/bl)			
	1st Week September	Weekly chg. (%)	Annual chg. (%)
WTI	55.3	0.4	-20.1
Brent	59.8	0.0	-22.8
Price of the Venezuelan oil basket (USD/bl)			
	1st Week September	Weekly chg. (%)	Annual chg. (%)
Weekly Average	54.7	1.5	-21.3
Annual Average	59.0	-0.2	-7.4

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

¹ Depreciation (+)/Appreciation (-)² FX Borads' average exchange rate

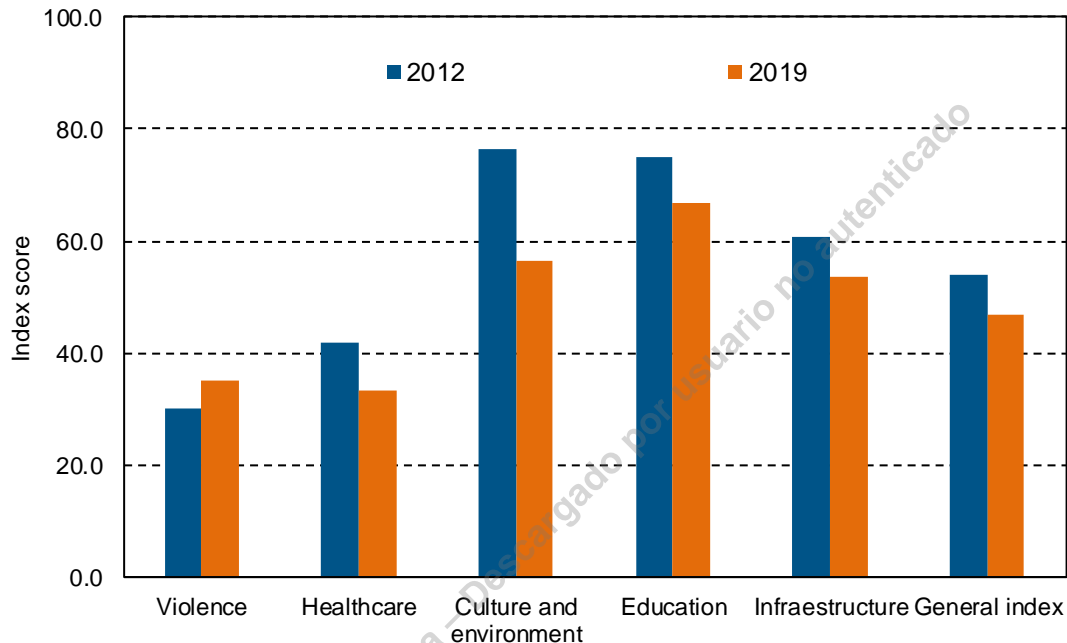
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GRAPH OF THE WEEK: "WHERE WE LIVE"

Caracas: Evolution of the liveability index



Sources: EIU y Ecoanalítica

Note: The maximum score of the index (100) shows a better quality of life.

Last month, the Economist Intelligence Unit (EIU) published its livability ranking, which lists 140 cities in different parts of the world based on their quality of life. To measure this they used standards in the areas of health, education, infrastructure, culture, and violence. In 2019, the best city to live in according to this ranking is Vienna, Austria, with a total score of 99.1 out of 100. On the other end of the scale, the worst city to live in is Damascus, Syria, with a score of 30.7.

The ranking of both Vienna and Damascus come as no surprise because they were already in or close to those positions. Something new in this year's ranking is that Venezuela's capital is among the ten worst cities to live in for the first time. A breakdown of the index reveals that Caracas has low scores in the areas of the health system and stability in particular. Education is the category with the highest score (66.7), followed by culture and environment (56.3). However, if we compare these results with those from seven years ago, we find that these two items in the index are the ones that have deteriorated most (-11.1% and -26.5%, respectively). Strangely enough, violence is one

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of the aspects that improved in 2019, although this improvement in the score did not prevent Caracas from dropping into the group of the ten worst cities in which to live.

In 2019, Caracas posted a score of 46.9, 7.1 percentage points below its score in 2012. The results of this index hardly come as a surprise. The decline indicated by this figures can be seen and experienced every day in the streets of Caracas, since the deterioration of the economy –directly linked to other factors in the lives of Venezuelans- has been so great that it has resulted in Caracas posting the lowest scores in several quality of life indicators on a par with cities in countries where there are serious social and economic conflicts such as Syria, Nigeria, Pakistan, and Zimbabwe, to name just a few.

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ECONOMIC TIPS

Relying on Spain. According to the news agency Reuters, the Central Bank of Venezuela is moving its money through the Bank of Spain and is offering this as an option to its contractors for transferring and receiving funds abroad.

A considerable delay. According to sources consulted by Reuters, these operations are allowed despite the sanctions imposed by the United States and Central Bank of Venezuela officials warn contractors that, in opting for moving their funds through Spain's Central Bank, their operations may suffer a delay of more than one month before the funds are made available, given the rigorous scrutiny to which these transactions are subjected.

Repeating the same formula. Maduro announced that the fair price control system is to be revived and he appointed Tareck el Aissami to *"establish the updated system of agreed and fair prices permanently."*

Admitting they fell down on the job. He said he could not allow sharp increases in prices whether due to speculation, lack of government or economic war, saying that although the system had been effective it had not been fully complied with. *"I assume full responsibility for us not having complied with the agreed prices. It is necessary to constantly supervise these agreed fair prices,"* said Maduro.

Costs determine prices. He also emphasized that price controls did not adversely affect producers. *"We never say crazy things. If your cost for producing a pasta is 'x,' I'm not going to say that you sell it at less than that."*

National Assembly: inflation in August. Last Thursday, Ángel Alvarado, a member of the National Assembly's Permanent Finance Committee, revealed that inflation in August was 65.2%, which gives inflation for the year to date of 2,674%.

National Assembly: economic contraction. Deputy Alvarado also said that economic activity had contracted by 43% in the first quarter of the year compared to the same quarter in 2018.

International reserves. The international reserves closed the week of September 6 at USD 8.3 billion, for a drop of 0.2% compared to the close of the previous week. Compared to a year ago, this gives a drop of 0.1%.

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Money supply. Money supply was at VES 13.4 trillion in the week of September 6, up 1,75% in nominal terms compared to the previous week and 16,739% compared to the same time last year. However, in real terms, this amount represented a contraction of 74.5% for this year to date.

Money desks. The average money desk exchange rate on September 13 was VES 21,555/USD, for a depreciation of 0,51% compared to last week. Also, it maintained a premium of 7.6% over the unofficial exchange rate

OIL TIPS

August increasing. According to the Organization for Petroleum Exporting Countries' (OPEC) official report, the Venezuelan oil production in August was 933,000 daily barrels (b/d) by primary sources. This number represents a 27 kb/d increase respect to the previous month's production.

August decreasing. On the other side, according to secondary sources, OPEC's report established a 712 kb/d production, which represents a 43 kb/d drop compared to July's oil production.

Round 2. Also, the Chinese state oil company CNPC (China National Petroleum Corp) will not charge deliveries from Pdvsa on September, like it happened in August after the last US sanctions. For the enterprise, these sanctions were a potential prlude for deeper sanctions.

No more. Reuters informs that a source with knowledge on the company's poture on the subject established that *"at a level group, CNPC has manifested to not charge Venezuelan oil"*. Reuters confirms that as of now Pdvsa has no shipments intended to CNPC.

They continue to fall. In August, Venezuela's oil exports fell to their lowest level so far this year, according to a report by Reuters based on data published by Refinitiv Eikon. They fell to 770 kb/d, down from 992.6 kb/d in July and 1.13 mb/d in June.

Taking a bigger share. Already in July Rosneft, as a PDVSA customer, had increased its share of Venezuela's oil exports, but now it has increased that share even more. In August, Rosneft received 65% of PDVSA's total exports, an increase of 16 percentage points compared to July (49%).

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India lags way behind. The second destination for Venezuela's oil exports in August was Europe, where the Spanish oil company Repsol continued to swap refined products for Venezuelan crude; next was Cuba, with an increase in shipments received compared to previous months; and India, which at one time was a major customer, received only one shipment of 1 mb/d.

Off the radar. Moreover, Refinitiv Eikon states that measuring Venezuela's oil exports has become complicated due to the way in which some are being sent, since oil tankers are used that do not switch on their signal transponders when approaching or leaving Venezuelan territorial waters.

Location unknown, Part I. The large crude carrier Marina M stopped sending location signals as soon as it took on a load of crude at Venezuela's Jose Terminal. According to international law, vessels must have a satellite tracker on board. However, the owner of the vessel may turn it off at his discretion when it is a matter of security and when he has permission to do so from the country under whose flag the vessel is sailing.

Location unknown, Part II. Between August and early September, two other vessels disappeared from the tracker when they entered Venezuelan waters. The tanker Patmos I stopped sending location signals when it was approaching Amuay Port and the tanker Princess Mary did the same when it put in at Jose Terminal.

No ties with PDVSA. According to PDVSA documents, the Marina M and the Princess Mary were rented by Rosneft. The Patmos I was rented by Tipco Asphalt. Maritime Ltd., the company that operates the Marina M, said that it had not entered into any contract with PDVSA or any other company sanctioned by the United States. The other companies did not offer Reuters any comment.

Suspended. The Chinese contractor and engineer HanQiu declared the suspension of the project for expanding Sinovensa's crude plant due to outstanding payments. Sinovensa, managed jointly by Venezuela's state-owned oil company PDVSA and the state-owned China National Petroleum Corp (CNPC), is one of the few plants that have continued operating in Venezuela in spite of all the problems there have been.

USD 52 million. Sinovensa produces Merey, a type of crude preferred by the Asian markets where Venezuela currently has most of its customers because of the sanctions imposed by the United States. The project consisted of expanding the plant's capacity from 105 kb/d to 165 kb/d at a cost of approximately USD 52 million.

No payment, no deal. The engineer explained that "*after waiting for payment for a long time, given pressure due to the lack of cash flow, we are forced to announce that we are*

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suspending the contract (...) for supplementary works (...) at Jose blending plant and the Morichal facilities.”

New operators, Part I. Operations at Isla Refinery on Curacao were managed by PDVSA until the dispute with ConocoPhillips last year. Since then Curacao’s refinery, Refineria di Korsou (RdK), has been looking for another company to manage Isla.

New operators, Part II. The news agency Reuters reports that Refineria di Korsou started negotiations with the industrial commodities conglomerate Klesh Group for it to take over the reins of Isla. Negotiations are to take place over the next three months with the idea of reaching an agreement by the end of November this year, said RdK.

BUSINESS SECTOR TIPS

Checking up on the CLAPs. The Nicolás Maduro administration announced that it had finished its inspection of the production plan implemented by the Local Supply and Production Committees (CLAPs) in 16 of the country’s states. In the same press release, Maduro claimed that the idea was to meet needs and recover production capacity. The bags of subsidized staples will now cost VES 7,000 plus VES 2,000 in cash for transport and will potentially benefit 6 million Venezuelans.

Expectations are clear. The first vice president of the National Commerce and Services Council (Consecomercio), Tiziana Polesel, said that Consecomercio rejected the possibility of new price controls because price controls lead to shortages.

Hostile meetings. Maduro announced that the Vice Presidency for Economy Sectors must meet with “*agro-industrialists and producers*” to “*permanently*” establish a system of agreed prices.

A sterile solution. By way of a response, the president of the Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras), Ricardo Cusanno, pointed out that this measure would only result in products disappearing from the shelves, explaining that the big producers needed a suitable institutional framework in order to work optimally and that confidence was a crucial issue.

A good time to buy? The president of the Real Estate Chamber of Venezuela (CIV), Carlos Alberto González, said that the price per square meter of real estate had fallen by 75% on average over the past 20 years. He added that both the promotion of real estate

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property and the buying and selling of real estate in the primary and secondary markets had also been affected.

Reviewing the situation. The Superintendency of Banking Sector Institutions (Sudeban) held a meeting with representatives of state-owned and private banks, interbank networks, and credit and debit card operators in order to determine the status of the project for developing an alternative method of electronic payments.

The new order, Part I. Visa and MasterCard have announced that they will cease to operate in Venezuela shortly. This is forcing Venezuela's banking sector to develop an alternative payment platform, which has given rise to the project developed by the company Consorcio Credicard known as "Naiguatá."

The new order, Part II. Sudeban President Antonio Morales reminded everyone that it was necessary to achieve the "*independence of our payment system*" so as to guarantee the functionality of the system against "*attacks from outside*."

Doing it gradually. This meeting was held precisely when Sudeban announced MasterCard's intention to suspend Banco Agrícola de Venezuela and Banco de la Fuerza Armada Nacional Bolivariana. Given the impossibility of using the MasterCard platform, Sudeban promised to keep the connection operational by activating alternative payment processors.

We can't work without our basic input. Juan Crespo, the president of the National Federation of Flour Workers (Fetraharina), reported that operations at Cargill's wheat mill located on the west side of Caracas had been suspended. This happened due to the fact that the plant had very little raw material available because it was allocated only 10% of the tons of wheat it has the capacity to process. This decision affects 300 direct workers.

WORLD ECONOMY TIPS

An environment not conducive to optimism, Part I. Economic activity in Japan grew by 1.3% in the second quarter of the year compared to 2Q2018. This is a downward revision of the previous reading of growth of 1.8% resulting from an adjustment to spending by the business sector.

An environment not conducive to optimism, Part II. The environment of uncertainty generated by the tensions between the United States and China, the weakness of the global economy, and protectionist tendencies have become risks to growth, and, for that

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reason, the Bank of Japan can be expected to step up its measures to stimulate the economy.

Reviewing August and looking ahead. Data published by China's customs authority revealed that China's exports fell by 1% in August compared to August 2018. This is a repetition of how exports behaved in June, when they fell by 1.3%, in contrast to July, when they rose by 3.3% as expected by experts consulted by the news agency Reuters.

They are being missed. In spite of the devaluation of China's currency to offset the pressure of costs and customs tariffs, the 16% drop in exports to the United States compared to August last year played a significant role in these results.

Deflated. Figures published by China's National Bureau of Statistics (NBS) show that producer prices in China fell by 0.8% in August compared to August 2018 resulting in the biggest contraction in prices year-on-year since August 2016.

The need for measures. These figures could indicate that the Chinese economy is weakening. Policy measures are underway to address those fears. The People's Bank of China has announced that it will reduce the amount of cash the banks must hold as reserves. This could be due to a cut in prices in order to obtain new orders or to cutting production with a view to containing costs.

The measure in detail. So, the People's Bank of China has reduced the reserve ratio requirement (RRR) by 50 basis points for all banks and made additional cuts of 100 basis points for some smaller banks. This will be the third time that it has used a similar measure this year and the seventh time since early 2018. The effect of the measure will be free up approximately USD 126.35 billion, in a clear bid to stimulate the economy. The measure is to go into effect on September 16.

Staying on track. Two British ministers commented to Reuters that Prime Minister Boris Johnson does not intend to delay the United Kingdom's withdrawal from the European Union. These comments were made in an attempt to generate stability after the minister of labor and pensions, Amber Rudd, resigned over differences regarding decisions relating to Brexit.

A scary revision. The European Union's statistics office, Eurostat, has revised the European Union's gross domestic product (GDP) for the second quarter of the year compared to 2Q2018 down from 0.4% to 0.2%. This is apparently due to the contraction of the German economy and the slowdown in trade.

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The dialog continues. China's Ministry of Trade announced that China would hold talks with the US Government in October. In the same press release, it stated that the calls to arrange the meeting were positive and that it hoped to make progress during the talks.

Setting the agenda. The next president of the European Central Bank (EBC) said that the bank should establish an expansive long-term monetary policy (duration not specified), but one that takes into account the world agenda, such as issues relating to climate change, for example.

New appointments. Colombia's Presidency appointed Roberto Steiner as the new co-director of the Central Bank and Juan Pablo Zárate as the new technical vice minister of finance.

POLITICAL TIPS

The latest Human Rights news. On Monday, Michelle Bachelet, the United Nations High Commissioner for Human Rights, submitted an update to her report on the human rights situation in Venezuela.

FA(taliti)ES. The update states that, according to reports by the NGO *Monitor de Víctimas*, in July 57 there were new cases of alleged extra-judicial executions by members of the National Police Force's Special Actions Unit (FAES), a body that, instead of being wound up as recommended in the initial report, had "received support from the highest level of government."

A dangerous law. The high commissioner also expressed her concern over steps being taken to pass a law that bans the activities of human rights organizations that receive funds from abroad, as this would make the conditions of democracy in Venezuela even worse.

Children at risk. Bachelet also said in the report that, according to the NGO *Cáritas*, 35% of children under the age of five catered to in June 2019 in the poorest areas of 18 states showed signs of chronic malnutrition.

Bad practices. The report also criticized the cases of arbitrary arrests and physical and psychological torture as well as the conditions in which prisoners are held in Venezuela, given that "they do not comply with basic international standards and detainees do not have access to adequate medical care." In view of this situation, the report requests the pertinent authorities to take steps to correct these practices.

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More than declarations are needed. Responding to the update of the report, a number of National Assembly deputies, among them Delza Solórzano, Manuela Bolívar, Rafael Uzcátegui, and Adriana Pichardo, criticized its lack of forcefulness, saying that denouncing what was happening was insufficient and that it was necessary to take additional measures, such as setting up an Investigation Commission for Venezuela.

Lamentable. Responding to the report via Twitter, Jacqueline Faría, the head of government for the Capital District, criticized it, saying “*It does not defend the respect for living decently held by Venezuelans*” who are being attacked by “*US sanctions that are far from human.*” “*What a lamentable role Bachelet is playing,*” concluded Faría.

The Essequibo is ours, Part I. Last Thursday, the National Assembly urged the Government of Guyana to resume contact via diplomatic channels and demonstrate its intention of maintaining relations with Venezuela.

The Essequibo is ours, Part II. William Dávila, the chairman of the Mixed Commission in Defense of the Essequibo and the Atlantic Façade, denounced that oil concessions had been granted in territory over which there is a diplomatic dispute, following the arrival of the vessel the Liza Destiny from Singapore at the Stabroek Bloc, the world’s second biggest reserve of petroleum. “*We don’t recognize any of the oil concessions granted in the Essequibo,*” he said.

The Essequibo is ours, Part III. Dávila also stressed that Guyana is hostilely invading the Orinoco Delta Exclusive Economic Zone, which is indisputably Venezuelan sovereign territory, and expressed his concern regarding the possible ecological damage that could be caused because of the concessions.

Support in exchange for land. Last Thursday, Delcy Rodríguez, the vice president of Venezuela, accused Juan Guaidó, interim president of Venezuela, and Vanessa Neuma, Venezuela’s ambassador to the United Kingdom, of allegedly having sold the Essequibo in exchange for political support.

Traitors. Based on these statements, Nicolás Maduro requested the Public Prosecutor’s Office to take steps to condemn those implicated in the alleged sale of this territory, as “*it is a crime of treason to pretend to hand over the Essequibo,*” he said.

No more dialog? Maduro also established conditions for continuing the negotiations in Barbados, saying: “*Obviously, we will continue to refrain from sitting at the negotiating table until Deputy Guaidó rectifies his pretention of handing over the Essequibo. Either they rectify or they won’t see us there again. That’s it!*”

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It could get worse. In other statements, Nicolás Maduro announced that they plan to turn Venezuela into a Communal State by 2021, advancing “*towards strengthening the communal economy*” by 2020 and “*to forming communal cities*” by 2021.

Emergency meeting. Last Monday, a meeting of the Defense Council was held at which Nicolás Maduro denounced alleged attempted attacks on Venezuela by Colombia and its intentions of starting an armed conflict between the two nations.

42 aborted attacks. Maduro explained that in the past three months 42 attacks against Venezuela had been detected, which had been carried out with the help of Venezuelan civilians and military personnel who receive financing from the Colombian Government.

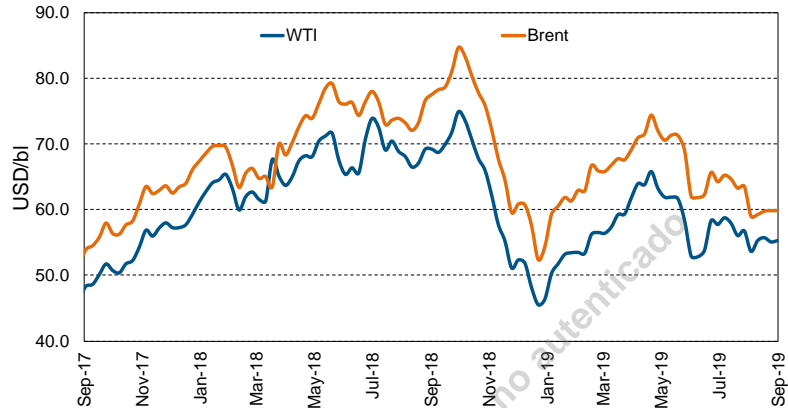
“Proof.” Maduro said he had evidence that proves Colombia’s intention to send terrorist groups to Venezuela to attack civilians, the military, public services and branches of government.

Alert on the border. In view of this, Maduro ordered an “alert” on the Colombian-Venezuelan border and called for military exercises to be carried out in the area from September 10 to September 28.

Raising the stakes of treason. At a meeting of the Defense Council, Maduro also said that the Constituent National Assembly proposed amending the system of laws and that it would consider increasing the penalties for treason and extending the circumstances under which they would apply.

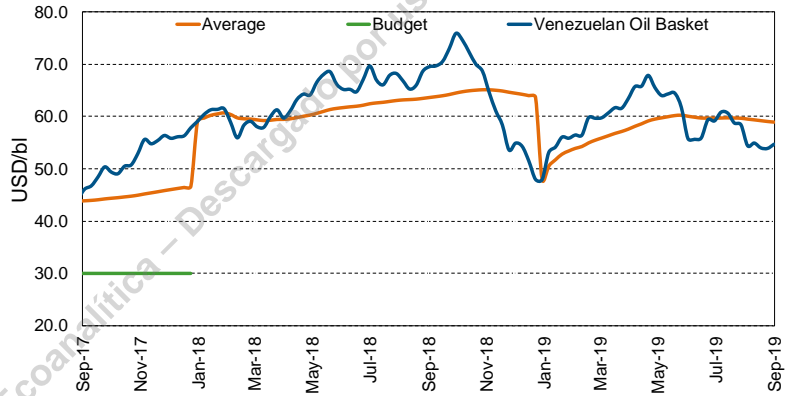
ECONOMIC INDICATORS

Oil Prices (WTI and Brent)



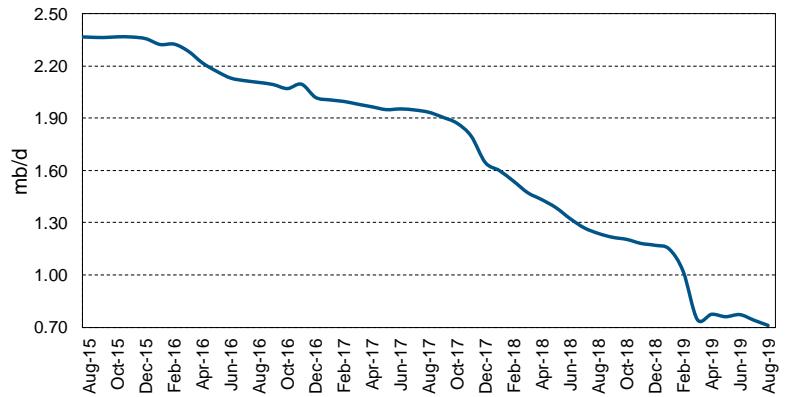
Sources: Menpet and Ecoanalítica

Oil Price (Venezuelan Basket)



Sources: Menpet and Ecoanalítica

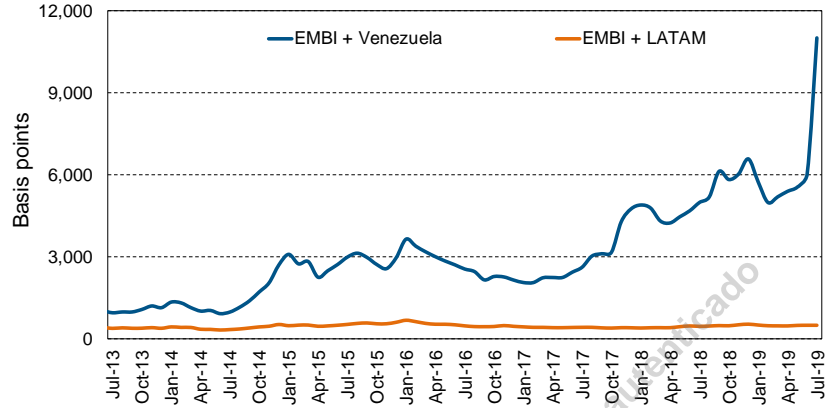
Oil Production (Secondary sources)



Sources: OPEC and Ecoanalítica

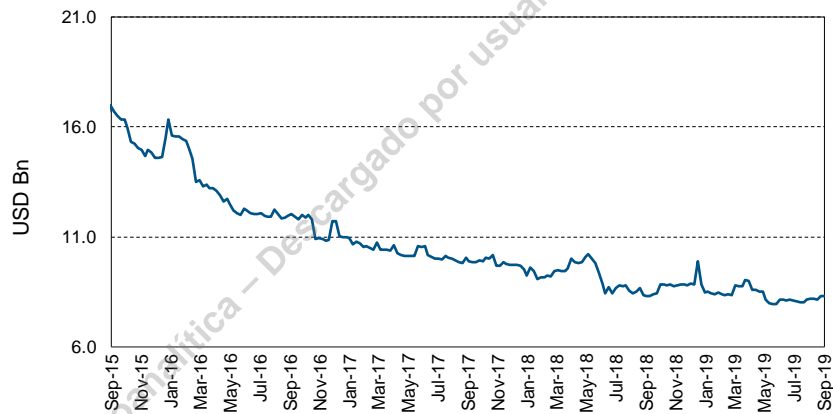
ECONOMIC INDICATORS

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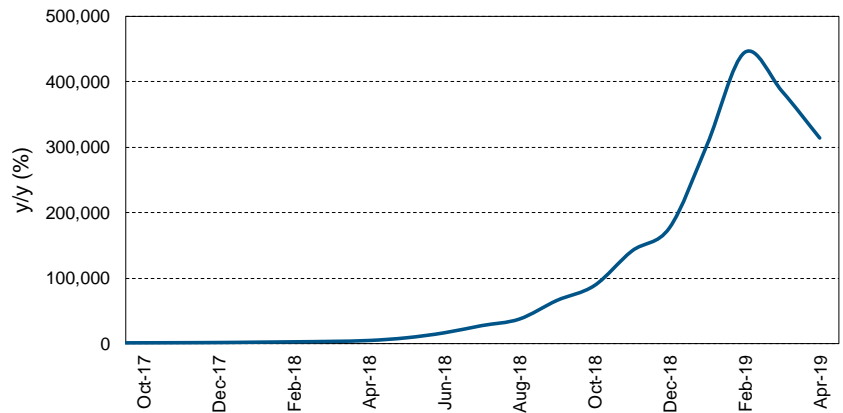
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



Sources: BCV and Ecoanalítica

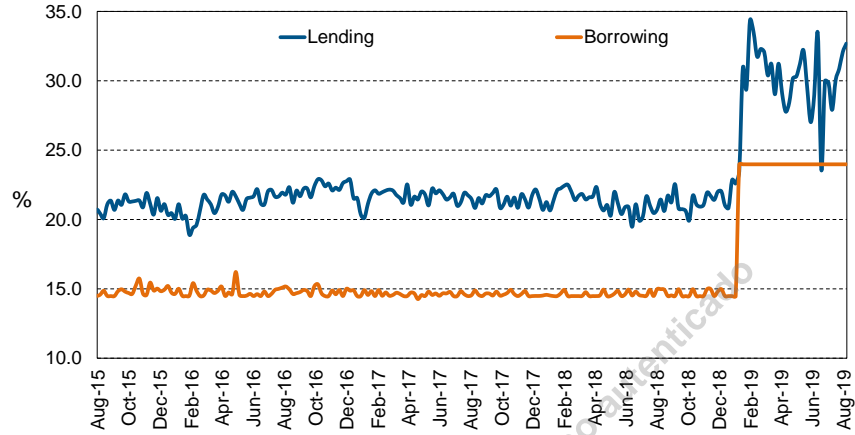
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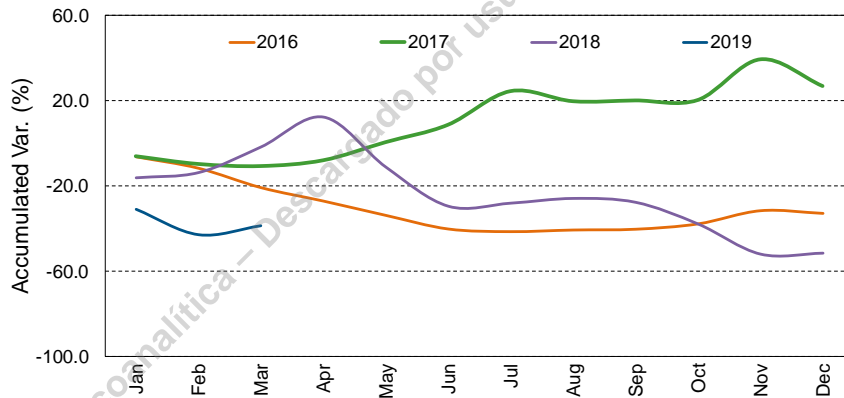
ECONOMIC INDICATORS

**Interest Rate
(Six major banks)**



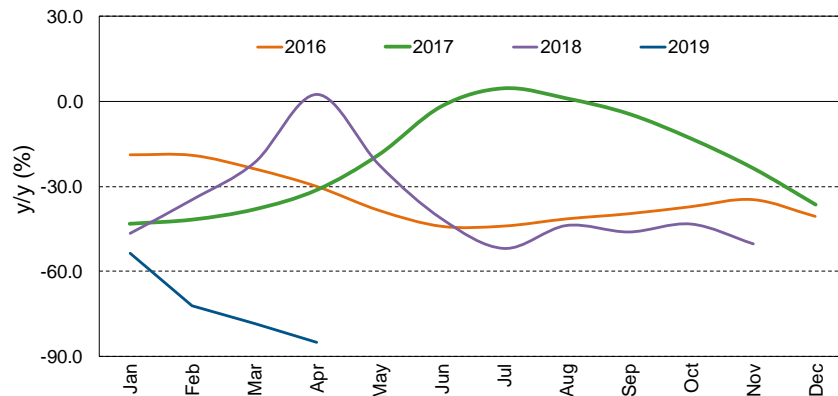
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

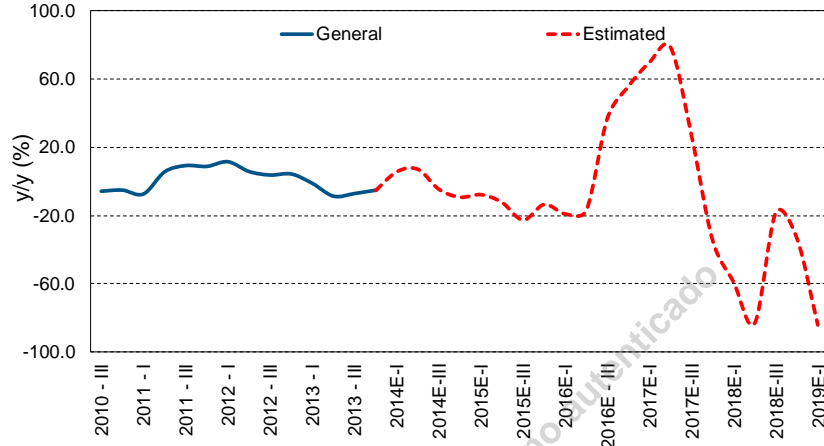
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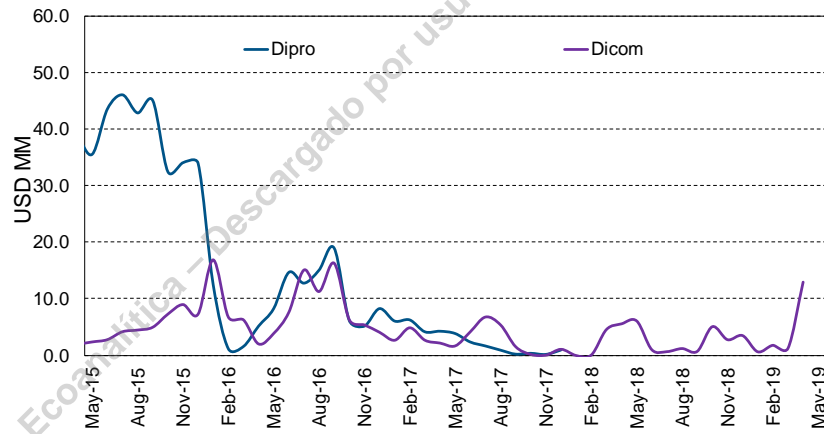
ECONOMIC INDICATORS

Real Wage Index



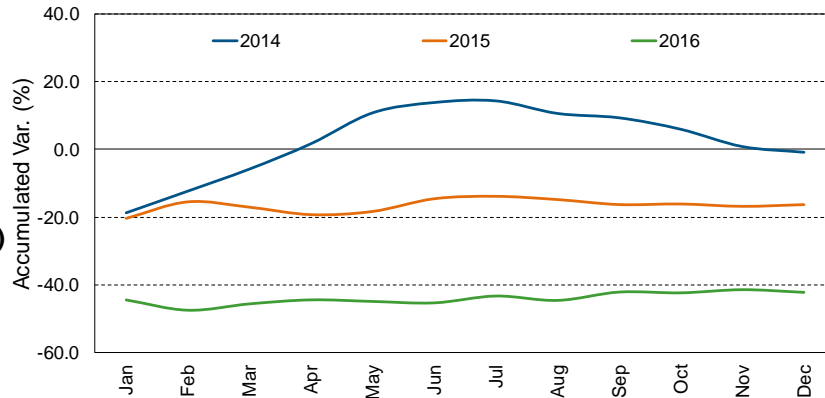
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO Real - Central Government



Sources: ONT and Ecoanalítica

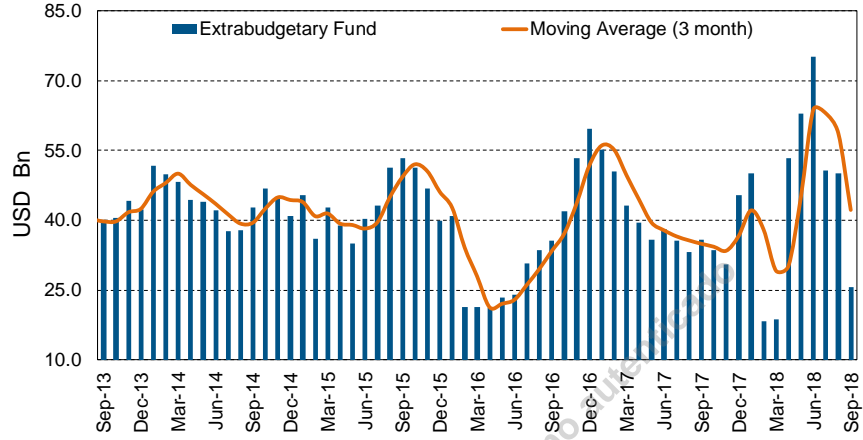
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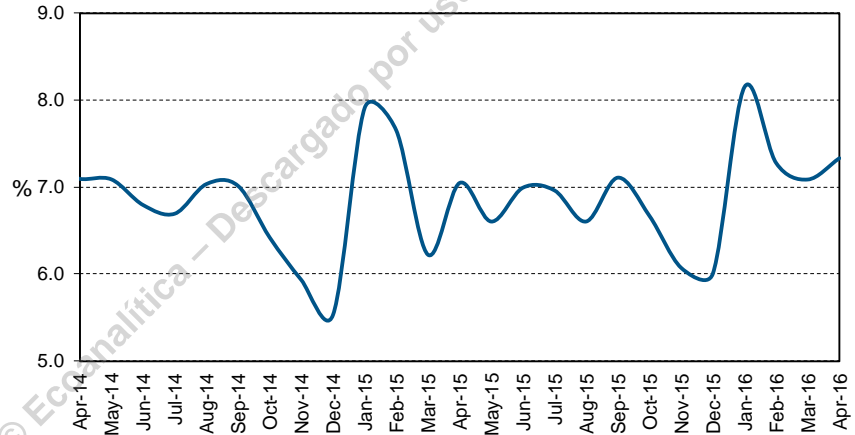
ECONOMIC INDICATORS

State Extrabudgetary Resources



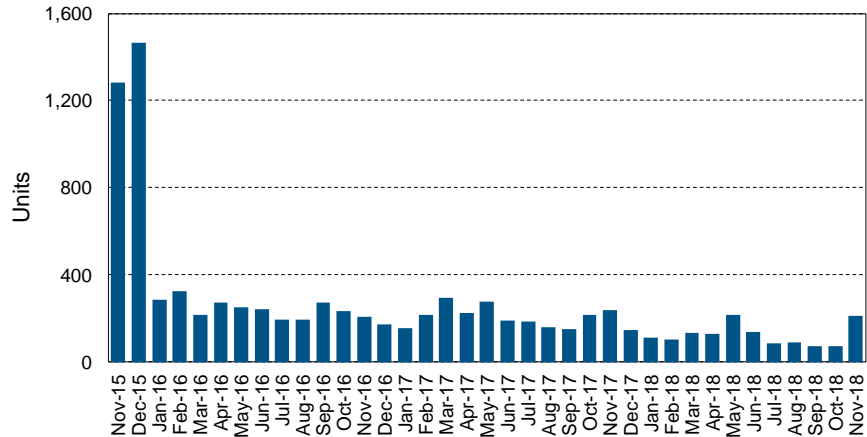
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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