



# Weekly Report

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*The agreement has been finalized: new financing from China is ready*

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After a number of drafts and much deliberation, the framework agreement between China and Venezuela, by which Venezuela will receive US\$20.0 billion in exchange for oil, has been finalized. The final draft of the agreement made public finally clarifies a number of doubts that have always surrounded this loan and allows for a better overall evaluation of this agreement, which will be the focus of this Report.

## **Improvement in transparency**

At *Ecoanalítica*, we believe that this is a very big step in the right direction that the agreement was published in the *Gaceta Oficial*. This allows it to be studied more carefully and will lead to a better evaluation. However, there are still some details which have been left out of the draft which was made public, specifically the information relevant to how interests for the loan will be calculated and how they will be paid, and information regarding the so-called repayment costs. The following is our unofficial report regarding information about these matters.

## **What does the agreement say?**

As it appears in the *Gaceta Oficial* N° 39511 dated September 16, 2010, the agreement is not more than a document granting a line of credit from the



China Development Bank to the Economic and Social Development Bank of Venezuela (Bandes) for an amount of US\$20.0 billion which will be paid off with shipments of crude oil from PDVSA delivered to the China National United Oil Corporation, and all this in order to: *“foster cooperation between both countries and promote the development of infrastructure, social development, energy, mining, and agriculture projects and accelerate the economic and social development of Venezuela.”*

**An important detail**

It's worth pointing out that since Bandes is the entity which is responsible for the loan on the Venezuelan side of the agreement, all issues pertaining to the financing of the loan will not be included in Venezuela's public debt records, because, according to the methodology used by the IMF, Bandes, as a financial public entity, doesn't appear in the Central Government's or the Restricted Public Sector's records published by the Ministry of Planning and Finance.

**What are the amounts involved?**

The long term financing agreement between Venezuela and China, as described in the agreement published in the *Gaceta*, will be implemented as follows: the lender (China) will grant the borrower (Venezuela) a line of credit in US-dollars (US\$) for a maximum amount of US\$10.0 billion and another line of credit in yuans (CNY) for a maximum amount of CNY 70.0 billion (= US\$10.0 billion). The maximum term of each line of credit will be ten years from the date on which the corresponding line of credit agreement is signed. The interest rate will be determined upon common agreement by the lender and the borrower, based on direct negotiations and market principles.

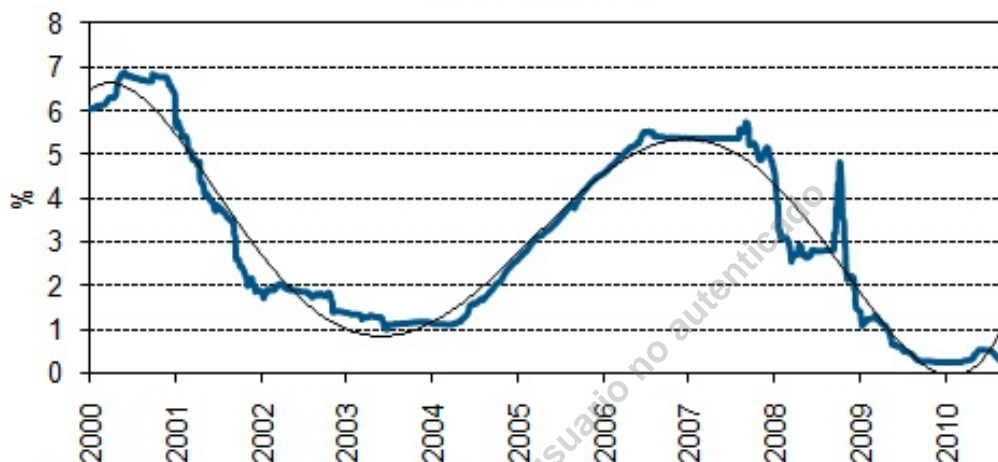
**What about interest rate?**

**Ecoanalítica** was unofficially informed that the interest rate for this agreement ranges between 3-month Libor + 50 base points (Li1) and 3-month Libor + 285 base points (Li2). This aspect is vitally important to evaluate the financial viability of the agreement. According to the following graph, this rate is substantially lower than the one the Republic would pay on international markets; for instance, the recently issued 2022 sovereign bond with a close to 16% yield.





## Libor Rate



Sources: Bloomberg and Ecoanalítica

In the coming years, it is expected that the Libor rate will slowly recover to its normal levels between 3.6% y 6%

### Payment modality

Payment is to be made as follows:

- The seller (Pdvs), on behalf of the Government of the Bolivarian Republic of Venezuela, will sell crude oil to the buyer (China National United Oil Corporation) according to the following scheme: not less than 200,000 b/d for 2010; not less than 250,000 b/d for 2011; and not less than 300 kb/d for the year 2012 until the date on which the obligations under the financing agreement have been fully and unconditionally fulfilled.
- The buyer will directly deposit the Money for the crude oil purchase in collecting accounts opened and held by the borrower with the lender; the portion corresponding to the money deposited in the collecting accounts will be applied to pay the lender principal, interests and other owed amounts. Through the corresponding legal and regulatory framework, the Venezuelan legislative and executive authorities will guarantee that the payment scheme described above complies with the Venezuelan laws.

### What will this fund finance?

Lines of credit mentioned before will be applied to major projects in the areas of infrastructure, social development, energy, mining and agriculture in Venezuela. At least US\$5.0 billion and CNY 70.0 billion will be used for



cooperation projects implemented by both countries, by virtue of the financing agreements signed between the lender and the borrower.

Cooperation projects will be jointly selected by the parties. Furthermore, part of the lines of credit could be used in China for cooperation projects between both countries, according to the law and upon decision by both parties.

This information is important, because it clarifies the purposes the resources will be used for. As we explained in our Weekly Report No. 15, The New China Fund: Still Not Very Clear Yet: "The way most people believe this new Fund works is that China transfers its resources into the fund and the Administration can pretty much use these resources for whatever it wants. The working-draft that outlines the parameter of the fund makes it clear that this is not the case. The new fund will be more like a trust fund between the Central Bank of Venezuela and the Development Bank of China and resources will only be liquidated for projects that are presented and approved by both parties. This is a big difference compared to if the Administration or PDVSA had raised the same amount of resources by issuing bonds for example, then there would have been no restrictions as to how they decided to use said resources." Now that the agreement has been published in the *Gaceta*, we can see that this principle remained intact, since both parties have to agree on how to use the resources.

**What has been said so far?**

Up until now, the Venezuelan authorities have revealed that the fund would finance up to US\$5.5 billion in investment in electric power projects, US\$600 million in agro-industrial development and an amount that hasn't been disclosed yet for Guayana basic industries. We expect that in the future, the Government will present each project specifically that will be financed with the resources coming from this new agreement.

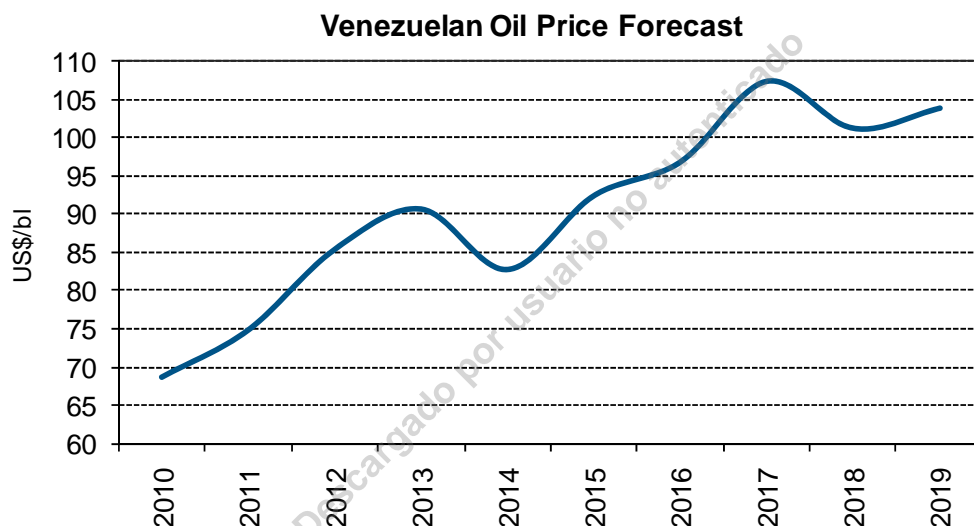
**Who benefits from this agreement?**

It's worth highlighting that the agreement establishes that Pdvsa is committing and responsible for selling specified amounts of crude oil to China, of which loan payments will be deductible; that is, Pdvsa will sell oil to China at market prices, pay the principal quota plus interest corresponding to the given period, and the rest will be deposited in Pdvsa coffers.

Taking this into account, at *Ecoanalítica*, we have tried to carry out an approximate analysis of the loan profitability, in other words, calculate the benefits that both parties are getting. For this purpose, using the interest rates mentioned above, we assume that the cost of each barrel negotiated



(capital amortization cost) to repay the loan ranges between US\$ 17-23/bbl. for the Li1 rate and between US\$ 15-24/bbl. for the Li2 rate. Additionally, we projected market oil price over the next 10 years. This assumption is crucial for the business feasibility and we admit that it has a broad margin of error, which is always the case when speculating on oil prices.



Source: Ecoanalítica

### Sometimes appearances deceive

Repayment was initially believed to be in kind (oil). In our weekly report No. 15, *The New China Fund: Still Not Very Clear Yet*, we concluded that the loan would represent a good deal for Pdvsa in financial terms, because the company would obtain a US\$ 20.0 billion loan paying an implicit rate a little over 12%, which would be impossible to get if Pdvsa were issuing bonds on international markets.

However, this calculation was performed on the assumption of oil shipments of 100,000 b/d to China. If we repeat the calculation based on 200,000, 250,000 and 300,000 b/d shipments, distributed as explained above, the financial result would be completely detrimental for both Pdvsa and the country, because the current value of future oil export flow would exceed US\$ 75.0 billion, using both Libor rates (Li1 and Li2). In other words, Pdvsa would be receiving *today* US\$20.0 billion for oil sales worth more than US\$ 75.0 billion.

The result would be similar if we compare what would happen if Pdvsa would borrow US\$20.0 billion today under market conditions. To have a clearer picture, let's see scenarios 3, 4 and 5 of the table below. It can be



seen that, under these market conditions, the Chinese loan wouldn't be advantageous for Pdvsa either.

PDVSA'S SHIPMENTS					
SCENARIO	1	2	3	4	5
Interest (%)	3.6	6.0	12.0	15.0	20.0
Loan Value (US\$Bn)	20.0	20.0	20.0	20.0	20.0
Shipments PV (US\$Bn)	78.1	69.1	51.7	45.1	36.5
Result (US\$Bn)	<b>58.1</b>	<b>49.1</b>	<b>31.7</b>	<b>25.1</b>	<b>16.5</b>

Source: Ecoanalítica

### A different operation

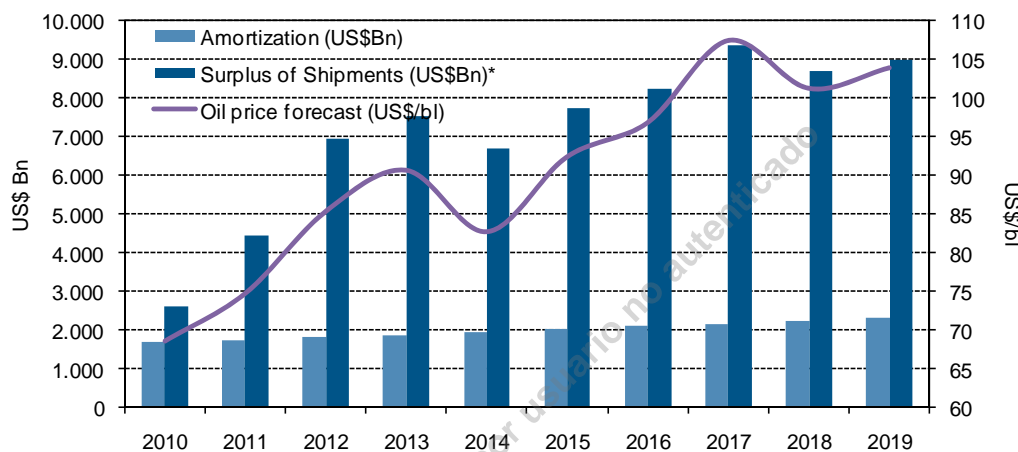
These results clearly show that the operation would represent a substantial loss for both Pdvsa and the country, whereas it would be an excellent deal for China, which would be assuring crude oil volumes in the long term from the country with the world's second largest crude oil reserves. However, the operation structure is different and this, in turn, implies some advantages for Venezuela too; for instance, since Pdvsa will sell oil at market prices and out of the price charged, it will pay the portion corresponding to the capital amortization cost, a surplus amount will be obtained that will directly go to Pdvsa and, therefore, to the Republic.

In this regard, the projected oil prices show that based on the crude oil sales agreed upon, Pdvsa would obtain a surplus amount similar to the current value of the loan. That is, the value of oil shipments at market prices would allow the Republic to repay the loan contracted with China and Pdvsa to obtain revenues for oil sales to China National United Oil Corporation, the proceedings of which would also go to the Republic's coffers.\*

\* Too see more details about the oil payments, amortization and interests, look at the appendix in the page 9.



### Line of credit payments Vs. Surplus of shipments at market prices



\* The surplus does not include production costs or tax contributions

Sources: Official Gazette Bloomberg and Ecoanalítica

### Symbiosis

Recalling the term Symbiosis as defined by the German botanist Anton de Bary: “*The living together of two different organisms in an intimate relationship and usually to the benefit of at least one of them,*” at **Ecoanalítica** we believe that this long-term cooperation and financing agreement is advantageous for both countries, albeit more for China:

1. China would assure long-term oil shipments from the country with the world' second largest oil reserves.
2. Through the cooperation projects in the different areas, Chinese companies would assure a durable link with Venezuela, like US firms did during the first half of last century. This is a plus, considering China's predominance in the current global economic context.
3. The fact that this is a long-term agreement entails bonds between governments and States that go beyond Chávez' staying in power.
4. Venezuela is assuring an outstanding oil buyer in the long term. It's worth remembering that China has been the engine behind crude oil demand growth over the past two years.





5. The Administration, in difficult times like the one the economy is going through, is assuring discretionary resources for at least US\$6.0 billion. This without including US\$14.0 billion that could be earmarked for strategic projects.
6. For Pdvsa, good relations with China would also guarantee this country's presence in the Orinoco Oil Belt, which is vital for expanding oil production and, therefore, the flow of foreign currency entering the economy.

**However, the Administration is characterized for a lack of transparency**

As we have repeatedly mentioned, the current government prioritizes bilateral indebtedness (with Pdvsa as axis), either with countries or institutions to the detriment of the market. At first glance, this doesn't represent any problem. However, this kind of debt is contracted without public opinion knowing in detail the financial conditions agreed upon, so as to express criticism and make remarks. In the case of the market, these conditions are public and accountability is guaranteed. Therefore, in this regard, the Administration is leaving many loose ends.

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## Appendix: Oil deliveries, amortization cost and interest payments

### Scenario 1 Libor, average 3.6%

Year	Deliveries (bl/d)	Amortization costs (US\$/bl)	Interest payment (bl/d)	Total deliveries (US\$/bl) A+I
1	200,000	23	27,533	227,533
2	250,000	19	22,995	272,995
3	300,000	17	18,087	318,087
4	300,000	17	15,019	315,019
5	300,000	18	14,169	314,169
6	300,000	18	10,561	310,561
7	300,000	19	7,979	307,979
8	300,000	20	5,231	305,231
9	300,000	21	3,389	303,389
10	300,000	21	1,121	301,121

Source: Ecoanalitica

### Scenario 2 Libor, average 6%

Year	Deliveries (bl/d)	Amortization costs (US\$/bl)	Interest payment (bl/d)	Total deliveries (US\$/bl) A+I
1	200,000	21	46,119	246,119
2	250,000	18	38,914	288,914
3	300,000	15	30,930	330,930
4	300,000	16	25,958	325,958
5	300,000	17	24,755	324,755
6	300,000	19	18,656	318,656
7	300,000	20	14,254	314,254
8	300,000	21	9,450	309,450
9	300,000	22	6,193	306,193
10	300,000	24	2,069	302,069

Source: Ecoanalitica





## Economic Tips

**Macro estimates for 2011 Budget.** Although definite values of macroeconomic variables that will serve as assumptions for the 2011 Budget and Debt Law to be presented on next October 15th, aren't still available, preliminary estimates for 2011 are as follows: Venezuelan oil basket price between US\$40/bbl. and US\$60/bbl. (average for the year-to-date US\$69.5/bbl.); oil production: 3.1 million b/d (2009: 3 million; Pdvsa's data); inflation between 20.0% and 30.0%; exchange rate: VEB 2.6 and VEB 4.3/US\$; and GDP growth: 0.5%.

**The Government spent VEB 134.7 billion over the first eight months of the year.** According to numbers published by the National Treasury Office, the Central Government expenditure amounted to VEB 20.2 billion in the month of August, for cumulative expenditure of VEB 134.7 billion during the first eight months of 2010, or up 18.2% from the same period in 2009, although in real terms it's 9% lower.

**On the revenue side.** The Government current revenues (VEB 111.6 billion) covered 82.8% of expenditure executed during the first eight months of the year, of which VEB 99.1 billion corresponded to revenues provide for in the Budget Law, and the remaining VEB 12.5 billion, to extraordinary revenues. Oil revenues stood at VEB 33.9 billion, or 30.4% of regular revenues, whereas non-oil revenues amounted to VEB 65.2 billion.

**Domestic debt issued from January to August: VEB 23.8 billion.** During the first eight months of the year, the Government issued domestic public debt denominated in bolivars (DPN bonds) for a total of VEB 23.8 billion, including VEB 13.0 billion of Vebonos and VEB 10.8 billion of Fixed Interest Securities (TIF). Adding the issue of sovereign bonds for US\$3.0 billion launched in August, total public debt has increased by VEB 31.6 billion, because the latter is booked using the VEB 2.6/US\$ exchange rate. With this, the Administration has already used 90% of its indebtedness capacity established for this year in the 2010 Annual Special Debt Law. In addition, the total amount of circulating Treasury bills increased by VEB 2.9 billion, up from the VEB 5.15 billion authorized at the end of 2010 fiscal year; therefore a decrease in the issuance of this kind of securities could be expected.

**Seniat's collection drops 3.9% in real terms during the first eight months of the year.** Seniat collected a total of VEB 8.7 billion in August, for a cumulative collected amount of VEB 64.8 billion for the period from January to August, up 24.9% from



collection in the same period in 2009. In real terms, this implies a drop of 3.9%, because the level of average prices during this period was 29.9% higher than that of the same period last year.

Seniat collection (VEB million)	Jan-Aug 2009	Jan-Aug 2010	Variation (%)	Real Var (%)
<b>Total Collection</b>	51,925	64,834	24.9	-3.9
<b>Income tax</b>	18,079	19,223	6.3	-18.1
<b>Value added tax</b>	19,954	27,994	40.3	8.0
<b>Customs revenue</b>	9,879	12,209	23.6	-4.9
<b>Other taxes</b>	4,012	5,324	32.7	2.1

Sources: Seniat y Ecoanalítica

**Food basket went up 20.7% in eight months.** The food basket developed by the Workers' Documentation and Analysis Center (Cenda) reported an increase of 0.8% in the month of August, to VEB 2,323.5. Thus, the basket cost accumulated a 20.7% increase during the first eight months of the year. Cenda's basic basket almost doubled the minimum wage set at VEB 1,223.9 in late May.

**Outstanding transfer.** This year, the BCV is expected to transfer US\$7.0 billion to the National Development Fund (Fonden). Of this amount, 85% has been already transferred. The BCV has still US\$1.0 billion to transfer, but authorities have not specified when this transfer will be made.

**Sitme figures.** To date, US\$2,202.7 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$30.2 million a day, with an implicit exchange rate of VEB 5.3/US\$. Last week the traded amount reached US\$214.7 million, US\$14.8 million less than last week when braided US\$229.6 million.

**Interest rate.** The lending rate for the first week in September was at 18.5%, up by 120 base points compared to the previous week. Time deposits and savings rates were at 14.5% and 12.6%, respectively.

**International reserves.** International reserves decreased by 0.3% going from US\$29,285 million during the second week in September to US\$29,204 million during the third week in September. Compared to the same period last year, international reserves dropped by 14.9%.





**Monetary liquidity.** Monetary liquidity for the first week in September was up by 0.3% compared to the previous week settling at VEB 258.18 billion, and up by 9.5% year to date in nominal terms and down by 10.6% compared to the same period last year.

## Oil Tips

**The goal is US\$100.** In a statement issued by the president of Pdvsa, Rafael Ramirez said the goal to be reached regarding the price of an oil barrel was US\$100, indicating it was a fair price and the necessary level to sustain the investments in all oil-exporting countries in order to maintain the current productive capacity. That is why it was necessary for the Organization of Petroleum Exporting Countries (OPEC) to cut production by 4.2 million barrels per day as a measure to face the collapse of oil prices. He also said the OPEC was the most successful third-world organization, for being capable of defending the sovereign right of valuation of member countries' natural resources.

**Venezuela buying ships.** Russian Shipyards Corporation announced that Venezuela bought 10 Aframax vessel type, the value of US\$700 million, to be delivered in 2016. These vessels have capacity of 100,000 tons and are designed for transportation of oil.

**Venezuela in second place.** An official press release issued on Friday, September 17 indicates Venezuela currently has 251,000 million barrels of crude oil in proven reserves, placing it in the second place in the list of countries with the largest oil reserves in the world, right behind Saudi Arabia. In 1999, Venezuela had 87,000 million barrels in proven reserves, which, according to Rafael Ramirez, president of the state-owned oil company, is an encouraging example of the development of the country's oil policy.

**Accidents continue.** Four incidents have occurred in four different oil operative facilities owned by Venezuela over the past two weeks. A low-intensity explosion was reported on Friday, September 17 at the El Palito refinery in Moron, Carabobo State; a pier at the Cardon refinery was damaged during the load of a vessel that was going to Jamaica; two tanks caught fire at the Bonaire terminal, still inoperative; and there was a fire at Bullen Bay, Curacao, without major implications.





**Operations resumed.** After the accident occurred at the loading pier in Punta Cardon refinery while loading a vessel that was going to Jamaica, operations have already been resumed.

**However, in Bonaire keeps troubling...** However, even though the operation at the Punta Cardon and the Bullen Bay refinery in Curacao have been resumed, the incident occurred in Bonaire is resulting in problems to supply crude oil barrels to Asia, since a large amount of barrels are blocked. The Bonaire storage facility allows the accumulation of 12 million barrels of crude oil and byproducts, and loads between 20 and 25 vessels per month. Out of the total of crude oil imports made by China, only 3.0% comes from Venezuela, but out of the total of fuel oil imported, 20.0% is supplied by Venezuela. Apparently, the alternative to solve this problem will be the Borco terminal in Bahamas.

**On top of that, a spill.** Even though it has already been controlled, the rupture of a pipe in line 2, Km 115 of the UI-Amuay oil pipeline on Friday, September 17 caused a mid-size crude oil spill in the Los Andes sector, Dabajuro municipality, in the Falcon State. This new breakdown is directly affecting six families and 50 other families are getting indirect consequences. Neighbors claim the pipe has ruptured three times and has not been properly fixed, disregarding the damages this causes to their properties.

**Tension between China and Japan.** According to China, the exploitation of hydrocarbon deposits located in the Eastern Chinese Sea is perfectly legal, even though this area was claimed by Japan. This has increased tensions between these two Asian powers. Last May, both countries had agreed to enter negotiations for the joint exploitation of these deposits; however, negotiations were cancelled due to a deterioration of diplomatic relations.

**Global crude oil demand steady.** According to the September issue of OPEC's monthly bulletin, the growth of the crude oil demand as of 2010 remained constant at 1.0 mb/d. The global demand during the first half of the year was higher than the estimate, thanks to the agreements reached with consumer countries. With these results, a less dynamic demand is to be expected for the second semester of the year. The current growth level of 1.0 mb/d is expected to continue in 2011.

**... Production growth also expected.** As of 2010, the supply of crude oil by non-OPEC countries is expected to grow by 0.9 mb/d in comparison with the previous year, according to the September issue of OPEC's monthly bulletin. Next year's crude oil supply projections in these countries indicate a 0.4 mb/d growth compared to 2010. During August of the current year, oil production in OPEC countries reported 29.2 mb/d, a decrease compared to the previous month.



**International oil baskets.** At the close of the New York market last Thursday, September 23, the WTI was at US\$73.24/bl, showing a 1.8% decrease compared to the US\$74.57/bl of the previous Thursday. The Brent decreased by 0.9% to reach US\$78.37/bl, compared to US\$79.11/bl of Thursday, September 16.

**Local oil basket price.** The Venezuelan oil basket price increased last week, to close at US\$69.2/bl on Friday September 17, up by US\$2.0 from the US\$67.2/bl registered the previous week. Meanwhile, the basket's annual average kept constant in US\$69.5/bl.

## Business Sector Tips

**Cadivi: US\$108 million to Colombia.** Cadivi issued a press release indicating they had paid a total of US\$108 million to Colombian companies. The submission of currency is taking place in installments. The liquidation of US\$50 million was authorized last week, added to the US\$58.3 million previously handed out to airlines.

**... the agricultural sector still gets the most benefits.** According to Cadivi, so far this year, the animal production sector has received US\$690 million (through ordinary imports), 82.5% more than the sum received during the same period of 2009, when only US\$378.7 million had been authorized.

**Trade with Colombia will not be the same.** According to statements issued by the Colombian Minister of Trade, Industry and Tourism, Sergio Diaz Granados to the Reuters news agency, Colombia and Venezuela will hardly recover the trade exchange levels reported before the diplomatic crisis that caused the collapse of a bilateral commerce that used to move over US\$7 billion per year. *"I think the Venezuela we are going to work with for the next few years is quite different from the one we had been working with for the last 10 or 15 years, and it's ok for us to respect what they want in order to reach some sort of approximation in terms of commercial relations,"* said Diaz Granados.

**Does not supply.** Even though the Ministry of Agriculture assures coffee production has been enough to satisfy domestic consumption, the numbers issued by the National Statistics Institute (INE) show coffee imports increased by 76.4% during the first semester of 2010, compared to the same period of 2009. 3,105,708 kilograms of coffee were imported in the first semester of 2010, compared to the 1,761,032 kilograms imported during the same period of 2009.



**Sugar imports increase.** Another category reporting an important leap in imports is sugars and the like. According to INE, 223,629,003 kilograms of sugar were imported during the first semester of 2010, which compared to the 88,770,428 kilos imported during the first six months of 2009, represents a 151.9% increase.

**Meat too.** According to INE, livestock imports grew by 64.8%, going from 80,427,319 kilograms to 132,555,141 kilograms bought during the first semester of 2010. The organization also reports channel meat imports decreased by 86.6% over the same period. It is worth mentioning the main supplier of this product to Venezuela was Colombia.

**700,000 tons of food.** The minister of Nutrition, Carlos Osorio, said the country's food reserve was at 700,000 tons. The amount of the food reserve has been in similar levels since late last year. As of the end of 2009, President Hugo Chavez announced food reserves were close to 700,000 tons in storage, which was equivalent to an availability of 25 days of food. However, the goal was to go from those 25 days of stored foods to 60 days of available reserves by the end of this year, a goal that looks quite hard to achieve now.

**Government backed by Casino.** The negotiation between the Venezuelan government and the French group Casino made a change of direction. The government will now be yielding more participation to the private group than expected. Up until now, the Administration pretended to keep 80% of the business, but the magnitude of mass consumption product purchase-and-sale operations executed by the supermarket network motivated the reevaluation of the plan. Casino might keep a higher proportion than the originally agreed 20%. The French chain is expected to apply the "Leader Price" business model with Pdval and Supermercados Bicentenario. The Administration is trying to avoid mistakes in the food distribution sector.

**Commercial sector feels the crisis.** The president of Consecomercio, Fernando Morgado, reported that sales have decreased by 25% in the past 12 months during his presentation of the current situation survey correspondent to the second quarter of 2010. The spokesman condemned the fact that the prices of goods have increased by 25.7% in average, and that 88% of tradesmen have no access to the foreign currency liquidated through Cadivi. He stated employment had dropped by 5% between the first and second quarter of 2010, and the annual reduction of jobs reached 13%. The most affected sector has been customs services, with a 37% contraction, followed by auto shops, with a 34% reduction.

**The Government has them all.** In August of 2008 the Administration announced the nationalization of the cement companies Holcim and Lafarge, and the agreements



contemplated that these groups would have minority participation, but the State changed strategies and decided to completely take over the companies. After a series of arguments, the Administration decided to pay US\$946 million for both companies. Cemex's payments are still under review. In 2008, the company was expropriated and, due to unsuccessful negotiations to set a price, the Mexican group submitted the case to arbitration and is currently processing minority shareholder claims for US\$100 million about the group's selling of their external assets. This sum will be discounted from the final payment.

**But they are getting rundown.** The State took over cement companies under the argument that construction supplies were strategic and that it was necessary to guarantee the supply for construction sites, but the companies' production has deteriorated over the past year and a half. A drop in cement sales was reflected at the end of the second quarter, companies placed 1.8 million metric tons, 7.3% less than in the same period of the previous year, when 2.0 million metric tons were sold. Also, according to public sector reports, as of the end of the first semester, the industry was working at 80% of its installed capacity, and that has not been corrected. Representatives of the construction sector explain cement companies have difficulties that affect the outcome of their operation.

**Industrials: we are not well, but we're doing fine.** According to information presented in the Qualitative Industrial Survey prepared by INE, 56.5% of responding manufacturing entrepreneurs thinks their situation was positive between March and June of this year. In the second quarter of 2009, the percentage of satisfied respondents was 59.5%, three percent points more than the result reported this year. However, the portion has dropped dramatically over the past three years. According to INE, in the second quarter of 2007, 81.3% of surveyed industrials thought they had done well during the period. Respondents' expectations are positive, hoping the improvement maintains itself between July and September.

**"My house is well equipped."** The president of Venezuela, Hugo Chavez, inaugurated last Wednesday the plan "My house is well equipped," which will grant loans to families to purchase major home appliances manufactured in China at prices much lower than those set by the market.

**Looking to improve customer service.** In light of adjustments to the normative on the banking system's service quality, representatives of the Banking Association stated their need to modify some statutes to the Superintendence, especially concerning the obligation to maintain all cashier counters operative except during the lunch break, when they can reduce the number of clerks to 75% of the total, indicating the solution to this problem is to promote the use of electronic resources and not having more cashiers in each office. However, Roberto Leon Parilli, president of the



National Association of Users and Consumers (Anauco), considers the norms are positive and they meet some of the suggestions made by the Association.

**Financial system still weak.** The Banks' Superintendence (Sudeban) published the banking system's numbers as of August 2010. The numbers show deposits reached VEB 293.8 billion, 15.9% more in nominal terms than in August of 2009, but taking the effect of inflation, they represent a fall by 10.8%. The loans portfolio reached VEB 162.5 billion, a 17% increase in nominal terms but a contraction of 10% in real terms over the past twelve months. These numbers reflect the fact that the Venezuelan economy is still weak.

**Flights suspended.** Through a press release, the Ministry of Transportation and Communications temporarily suspended all activities of the airline Conviasa. This decision was made in light of the events occurred in past days, so the temporary suspension of Conviasa's operations began at 00 hours on Friday, August 17, and will remain suspended until October 1 of 2010 at 00 hours to carry out a technical audit. The Transportation and Communications portfolio guarantees relocation in other airlines to those who had purchased tickets to travel with Conviasa during said period.

**Mobile phones produced in Venezuela.** In four months, the Orinoquia factory has produced over 62,000 mobile phones, according to the ministry of Science, Technology and Intermediate Industries, Ricardo Menedez. He also said the mobile phone factory Velteca had quadrupled production so far this year.

## World Crisis Tips

**Federal Reserve willing to relax.** The Federal Reserve indicated it is willing to relax the monetary policy even more if it is necessary, in order to create a bigger impulse to the economy by reducing unemployment and refraining from increasing asset holdings in the market. In the statement, the Open market Committee indicated the Federal Reserve was ready to do whatever was necessary to guarantee economic growth and reach the normal inflation levels. The referential interest rate for loans was kept at 0.25%. Inflation will remain below normal for a while longer.

**Unemployment still strong.** North American companies increased their payrolls by only 67,000 employees, less than expected by analysts, so the unemployment rate reached 9.6%. This was due to the fact that 36 US States suffered payroll reductions, mainly Michigan which reduced payrolls by 50,300 jobs, the biggest fall since January



of 2009. Unemployment increased in 27 states, especially Nevada, which hit a peak in unemployment with 14.4%, the highest level in the country. The unemployment rate is not expected to decrease from 9.0% for the next twelve months.

**Home construction improves.** According to numbers issued by the United States Department of Commerce, home constructions increased by 10.5% in August, at a seasonally adjusted annual rate of 598,000 units, after reporting a revised increase by 0.4% in July. The increased reported in August is the biggest since November of 2009, and analyst projections aimed at an annual rate of 550,000 units. The y/y increase is 2.2%. According to the report, the increase was thanks to the construction of multi-family homes, which increased by 32.2% m/m, to reach a rate of 160,000 units, a 55.3% y/y increase.

**But victory has not been achieved yet.** Even though the Us Department of Commerce reports growing numbers in home construction, the US National Association of Home Builders indicates the activity is at a very low level, measured by the housing market index which read 13 points in September, compared to 19 in September of 2009. This index is the result of a survey to different sector representatives, being the highest score 50 points, which would indicate a good situation in the market.

**Consumer expectations decrease again.** The Consumer Sentiment Index, which measures consumers' perspectives about the economy, contracted again in September, showing a 9.4% y/y reduction and a 3.3% m/m decrease. This is because the economy's expectations contracted by 19.6%, compared to the same period of 2009, even though the appraisal over the current situation of the economy is 6.8% higher than one year ago.

**Inflation under control.** The US Consumer Price Index (CPI) reported a 0.3% variation in August, the same level of July, which matches analysts' projections. The index's y/y variation reached 1.2%. This increase was mainly boosted by a significant increase in the price of energy goods, which reported a 2.3% gain this month, strongly influenced by a 3.9% growth in the price of gasoline. Regarding the inflationary core, excluding energy and food products, it has only increased by 1.0% so far this year.

**Loans begin to react.** The Us loan market grew by US\$567 billion during the second quarter of 2010, in revised numbers, a better result than the growth of US\$498 billion in the first quarter. However, in y/y terms, this growth represents a 0.9% contraction. During the second quarter, the Federal Government increased its indebtedness to US\$2.0 trillion, while non-agricultural corporate businesses increased by US\$273 million, homeowners reduced their debt by US\$309 billion and micro enterprises



reduced their debt by US\$256 billion. The financial sector also reduced its loans by US\$575 million, the smallest cut in the last cycle.

**This time France improves and Germany declines.** According to the seasonally adjusted new manufacturing product orders' index, opposite from previous results, Germany reported a 2.6% m/m decrease in July, with this being the first month in which a contraction occurs. However, in the same indicator, France showed a 1.8% m/m improvement, even though it is still below its level of 2005 (Index Base).

## Political Tips

**"Imperial rudeness."** President Hugo Chavez branded as an *"Imperial rudeness"* a US report including Venezuela among countries that do not *"evidently"* maintain their commitment against drug trafficking and restated he would not receive Larry Palmer, appointed Ambassador for the Barack Obama Administration. *"Strangely, untimely, the Obama Administration (...) the irresponsible Government, the assassin Government, the pro-coup Government, the Yankee empire,"* identified Venezuela among the twenty countries included as large producers or platforms for drug trafficking, said Chavez on TV.

**Meanwhile, the Chancellor's office...** The Venezuelan Administration stated the report was prepared irresponsibly, unilaterally and arbitrarily by the United States Government, and considered that including Venezuela in said document was both an abuse and an intervention. Venezuela condemned the coerciveness of this measure and demanded the review and derogation of all laws with extraterritorial effects that *"serve as a legal base for the imperialist States of America and violate international law."*

**The Attorney General approved.** For considering it an initiative that *"comes to strengthen and deepen the State policy to attack violence and crime,"* the Attorney General of Venezuela, Luisa Ortega Diaz, stated her approval to the proposal of the National Assembly's pro-government majority to authorize the Law of Disarming and Weapon and Ammunition Control.

**They can't come to an agreement even against violence.** The president of the National Assembly, Cilia Flores, stated the public consultation with all sectors about the draft of the Law of Disarming and Weapon and Ammunition Control was still active. At the beginning of its second period of sessions of 2010, the National Assembly



authorized the title and the first two articles of the legal instrument containing 77 provisions. However, Flores declined from analyzing oppositions proposals. *“They just want to steal the show. As long as they keep this cheap political maneuvering, no one will take them seriously,”* she said.

**University community speaks.** The university community expressed last week in a formal act, its expectations and demands for the new National Assembly Representatives, specifically for those running for the Democratic Unity Table, aiming to rescue the autonomy stated in article 109 of the Constitution and to reinstate the budgetary and academic strength to study houses.

**Polar in our hearts.** The National Union of Beer and Soda Beverages' Workers rejected President Chavez's threats to remove the company's plant from Los Cortijos, Caracas. The information was provided by the Union's president, Frank Quijada, who took the floor to express his discontent with Hugo Chavez's statements. *“We'd like to tell you won't hurt Lorenzo Mendoza. You want to mess with 4,000 families, and if we do the math, just the way you do, and calculate and average of five people per family, you'd be affecting twenty thousand people,”* he said emphatically. *“You're going to have to kill us and our families to get us out of here. You can't rule the way you're ruling, Mr. President (...) Why don't you demolish the Presidential Palace? You could fit more buildings than the ones you could fit in our space in Los Cortijos, because I guess you don't have so many people working at the Presidential Palace.”*

**Ministry of Higher Education: “we need radical laws.”** The Minister of Higher Education, Edgardo Ramires, stated *“We need to have representatives ready to establish new radical laws to end with all these illnesses of the republic, to have a higher education law that includes, that respects the right to free education, that guarantees quality with social pertinence... what's going to happen on September 26 is a crash, either the capitalist model dies completely, or the socialist model finally develops with strength guided by the sunlight and the holly fire of Simon Bolivar.”*

**Copei requests more international observers on S26.** The president of the political party Copei, Roberto Enriquez, asked the National Electoral Council (CNE) to increase the number of international witnesses allowed per coalition or party. CNE established a number of 30 international witnesses per coalition, an insufficient number according to Enriquez, who stated: *“It is only logical to appoint at least one international supervisor per circuit. That would mean 100 observers per block.”*

**Enrique Mendoza: acknowledgement of results depends on the transparency.** The MUD candidate for Miranda and former Governor of said entity, Enrique Mendoza, said the acknowledgement of the results of the parliamentary election would depend



on the degree of transparency observed during the process; he also mentioned the insufficiency of international witnesses.

**60% of electoral assistants had not been reached.** As of Tuesday, September 21, five days before the election, over 60% of all table assistants elected by the CNE had not been reached, according to Andrea Tavares, candidate for the Patria Para Todos Party (PPT). She also talked about PSUV plans to take advantage of this situation: *“We have been informed that in some regions, they are preparing people to substitute these assistants and we know that at the PSUV’s regional offices people are prepared as if this was a plan orchestrated to replace these electoral assistants.”*

**Trial against El Nacional.** A trial is currently taking place against El Nacional for the front page picture of August 13 which showed a group of dead bodies piled up in the Bello Monte morgue. The president and editor of the newspaper, Miguel Enrique Otero, declared as he came out of court that this trial was *“a complete arbitrariness”* because *“it is based on the Law of Social Responsibility in Radio and Television, as if this was an audiovisual medium”... “But the printed media are not ruled by the same law as audiovisual media.”*

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**ECONOMIC OVERVIEW**

