



Weekly Report

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What's going on with the black market?

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Venezuela is on a razor's edge. With less than two weeks to the presidential election, and both candidates running well, the closest presidential election there has been in a long time, the unofficial exchange rate has shot up by 25.9% in the last month, a fact that has everyone worried. What's going on? What should we expect in the coming months? This Report will try to answer these questions.

As we predicted

We'd like to begin by saying that at **Ecoanalítica**, we are not at all surprised by how the parallel exchange rate is behaving. In one of our Reports from the beginning of this year we pointed out that excess liquidity, restricting foreign currency via Cadivi and the Sitme, and the uncertain political environment, would all eventually push the parallel exchange rate to increase, making it very necessary to have a coverage strategy in place. And as you can see, the pot has finally begun to boil. So far this year, the unofficial exchange rate has depreciated by 37.8%, and just in the last month by 25.9%, without showing any signs that it will stabilize.

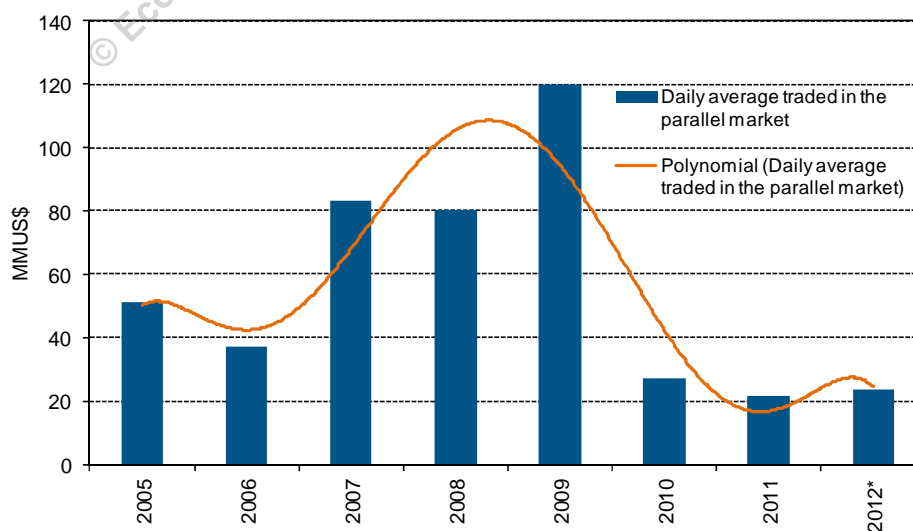


A bit of story

Given the nature of the Venezuelan economy, where the bulk of all incoming foreign currency is generated by the public sector, by implementing an exchange control, you immediately create a parallel exchange market (unofficial) for foreign currency. This is what happened when the Recadi was implemented, and then when the Otac was created, and now Cadivi, hasn't been the exception to the rule. Since Cadivi was implemented, there has been a parallel foreign currency market active alongside it. The only difference is that up until the middle of 2010, this parallel market was legal and even subject to regulations.

Then, in the middle of 2010, the parallel foreign currency market was declared illegal, transforming it, making it much smaller and much less transparent. This smaller market (with a daily average of foreign currency traded that fluctuates between US\$18 million and US\$ 25 million) is used mainly by foreign contracting companies working for the government (working with resources coming mainly from the China Fund and Fonden) and the so-called "exchange tables" that operate within the public banking system, the National Treasury, and even the Central Bank of Venezuela (BCV). The relative stability that this market has reflected over significant periods of time is mainly due to the fact that supply has flowed and the demand had not gotten out of control, mainly due to corporate and multinational entities having remained patient and passive.

Daily average traded in the parallel market



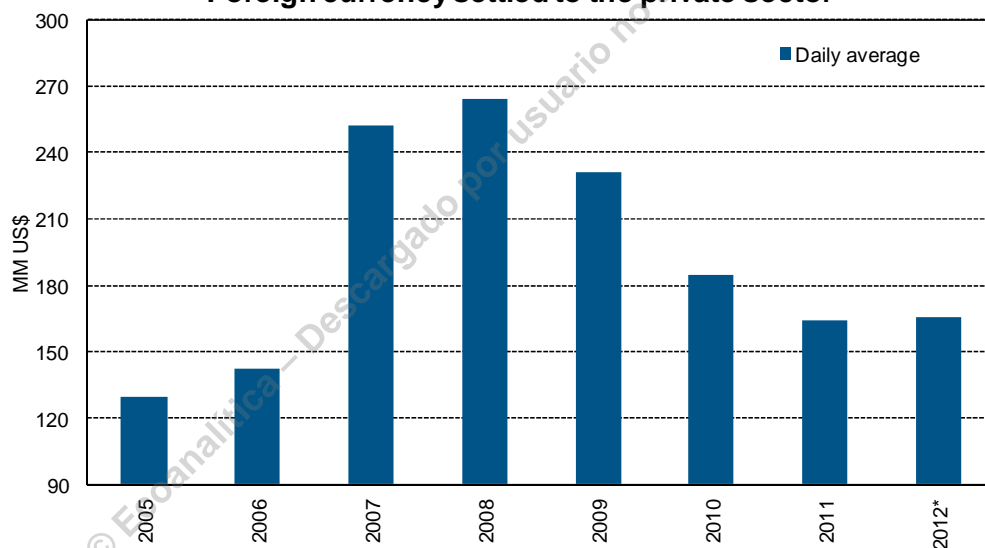
Sources: Ecoanalítica





As of the middle of August 2012, the supply of foreign currency has dried up. Nothing has come out of the contracting companies or the “exchange tables,” and to make matters worse, demand has begun to increase, shooting exchange rates through the roof. So, more than being affected by an uncertain political environment, what is pushing the exchange rate of the unofficial exchange market up is a lack of supply. As long as the foreign currency supply flow doesn’t return to at least the levels it was at before and stabilize, the so-called “black dollar” rate will continue to increase.

Foreign currency settled to the private sector



*Figures up to June

Sources: BCV, Cadivi and Ecoanalítica

What to expect...

What everyone is asking is: What’s going to happen to the unofficial exchange rate? At **Ecoanalítica**, the information that we have is that from Minister Giordani’s office, the order is that no issuances of bonds denominated in US-dollars will be made until after the presidential election, nor will any supply of foreign currency be issued via the public sector. So up until the presidential election, the unofficial exchange rate will be pressured to go up. Our recommendation continues to be to abstain from carrying out coverage operations.

Politics are not helping the supply side...

What to expect of the “black dollar” rate after the presidential election? It all depends on who wins. How the unofficial exchange rate behaves during the last quarter of the year will all depend on the outcome of the presidential election. If President Chávez is reelected, we don’t doubt that the supply will begin to flow again and the unofficial exchange rate will

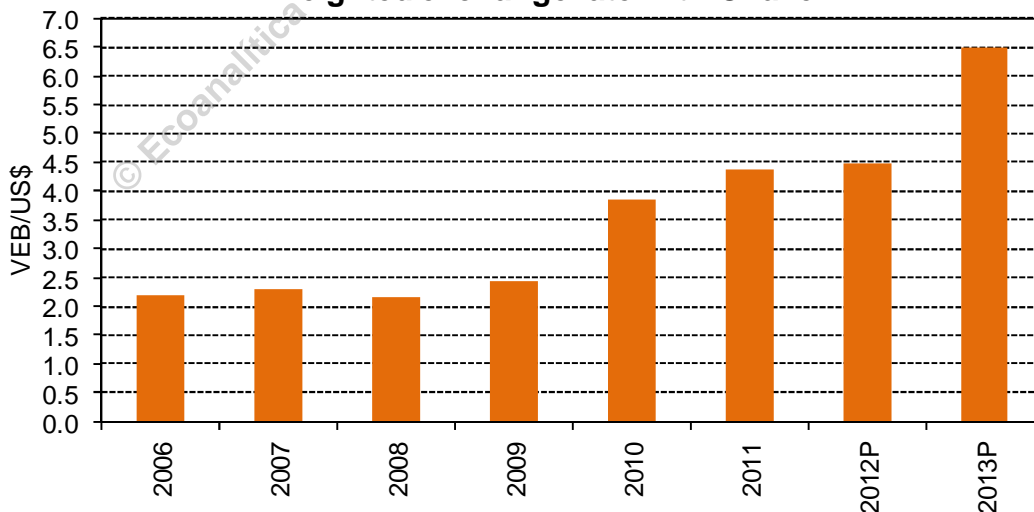


stabilize at between VEB10.5/US\$ and VEB11.0/US\$. The authorization will be given to place an issuance of bonds denominated in US-dollars in order to guarantee the supply via the Sitme. This placement will be private and the main beneficiary will be the BCV and the public banking system. No surprises here. It will all revert back to the same old business as usual.

It's important to highlight that the pragmatic wing of the Administration, which included the president of the BCV, Nelson Merentes and the president of Pdvsa, Rafael Ramírez, believe that the unofficial market should be stabilized in order to keep control of inflation. In this case, if Chávez is reelected and the Administration still has a mind to keep inflation at the close of the year at around 20%, as they have said they would, then from the BCV we should see a healthy flow of foreign currency supply to the unofficial market for the rest of the year.

If this is the case, coverage strategies should be intensified in the medium term, given that according to our estimates, we expect the devaluation of the official exchange rates (Cadivi/Sitme) will occur in the first semester of 2013.

Weighted exchange rate with Chávez



Sources: BCV, Cadivi and Ecoanalítica

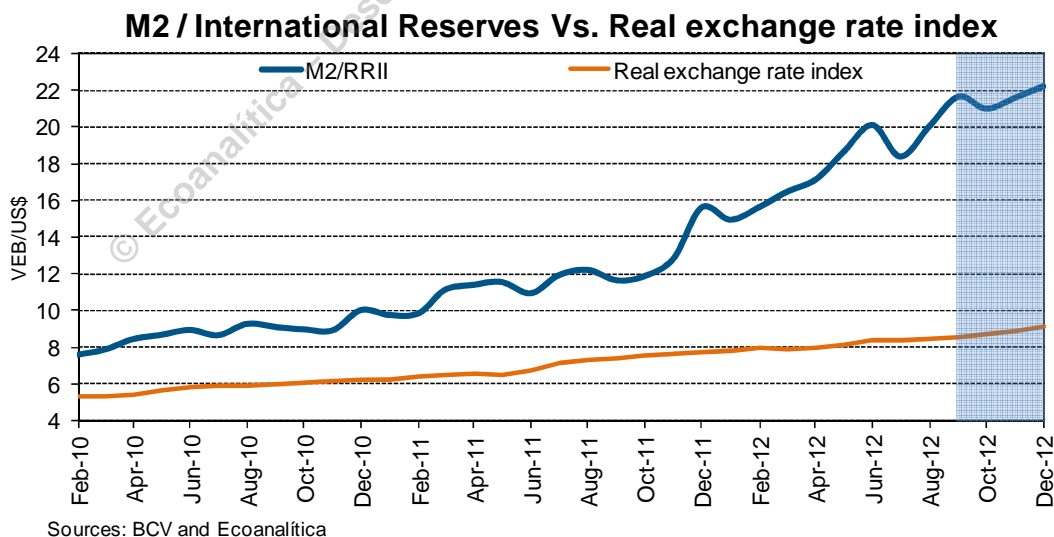
**And if Capriles wins?
“Mission Sabotage”**

If the opposition candidate wins, the last quarter of the year will be very difficult. At **Ecoanalítica**, we are convinced that if Chávez loses the election that the Administration will recognize the results and turn over the government. But the transition that leads to the handing over of the government is likely to be very chaotic, if one goes by how Governor's and



Mayor's Offices have been turned over in the past (a chavista official turning over a post to a member of the opposition). If such is the case, we shouldn't expect a very substantial increase in the flow of supply of foreign currency to feed the unofficial market. And there would be very little incentive left to improve the performance of Cadivi and the Sitme. The order of the day would be "Mission Sabotage," in other words; the Administration would be dragging its feet on everything, so as not to make it any easier for the incoming Administration.

This being the case, we don't recommend carrying out coverage strategies. The black US-dollar rate could increase significantly, even due to positive future economic expectations due to the change of Administrations and economic models. The implicit unofficial exchange rate calculated by dividing liquidity (M2) by international reserve levels, in order to calculate the ceiling of the exchange rate, points to the unofficial exchange rate closing 2012 at VEB22,7/US\$. This doesn't necessarily mean that the exchange rate will actually reach this level, but it does show that there is room for the rate to increase.



Furthermore, since Capriles has already made it clear that his Administration will gradually dismantle the exchange control, a process which very likely will legalize the parallel exchange market. If this happens, then there is no need for coverage strategies with such a mechanism available. To begin to analyze how this type of parallel exchange market will behave (after the new Administration assumes power) requires another type of analysis that we will leave for the future.



**Uncertainty as
the key**

It's clear that the outcome of the presidential election on October 7th will impact the outlook of the unofficial exchange market, because this event will be the key to determining how the amount of supply of foreign currency, which in the end, is the key in Venezuela. And, it is important to point out that no matter who wins, the devaluation of the official exchange rate will take place in the medium term. How it will be carried out may differ depending upon who is in power. And lastly, even if President Chávez were to be reelected, we do not rule out that there may be changes in how the unofficial exchange market will operate and function.

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Economic Tips

Unemployment rate at 7.9%. According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 0.4 percentage points in August, as compared to the same period in 2011, when unemployment rate closed at 8.3%; this means that in the eighth month of the year, 1,068,707 people didn't have a job. Men unemployment, in turn, was 7.4%, meaning a 0.2 percentage points decrease throughout the year.

Women's unemployment at 8.7%. Figures released by INE show that unemployment is affecting women more than men. The unemployment rate of women in August 1.4 pp below the same period of 2011. On the other hand, unemployment on male citizens stood at 7.4%, 0.2 pp higher than August 2011.

Inactivity rate decreases. According to inactivity rate figures published by INE, shows that decreased 0.6 percentage points compared to August 2011, to settle at 36%. Within this, men inactivity experienced a decrease 0.5 percentage points, settle at 21.3%. Women inactivity, in turn, decreased 0.7 percentage points, and stood at 50.5%.

Informality rate increases. According to INE's figures, at end-August, 5,254,122 people were employed at the informal sector (42.2% of working population), which results in a decrease of 1.6 percentage points compared to August 2011, when the sector employed to 5,275,848 people. Formal sector, which employs 57.8% of working population, increased 1.6% with respect to the same period in 2011.

Cendas: Food basket at VEB 3,887.9. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Family Food Basket reached VEB 3,887 in August, an increase of 0.9% with respect to July, and of 18.4% with respect to August 2011, when it was VEB 3,283; according to this entity, 1.9 minimum wages are required to be able to buy food.

In August, four of the eleven items in the food basket increased in price: milk, cheese and eggs (5.5%), cereals and its products (1.5%), fish and shellfish (0.7%), meat and its products (0.5%). Meanwhile, another five products kept the prices of July: fats and oils; beans, peas and lentils; sauce and mayonnaise; sugar and salt;



and coffee. And other two items have a decrease in its prices: fruits and vegetables (-0.7%) and roots, tubers, and others (-1.0%).

Accounts in dollars already have accounting rules. The Bank Superintendence (Superintendencia de Bancos - Sudeban) issued a resolution modifying the accounting manual that financial entities must follow, allowing deposits in dollars, a move forward towards the rules that private banks are waiting to start opening accounts in dollars. The BCV still has to establish the interest rates for term deposits, as well as the regulations to prevent money laundering.

Expropriating is expensive. Since 2007, the State has had to pay around US\$12.8 billion to companies affected by the wave of expropriations, an amount that could increase since the result of the international arbitrations against the Venezuelan state are still pending. There are few friendly agreements after an expropriation, since companies demand payment for the losses caused by the event, and the Venezuelan state proposes to pay only for the assets.

Whoever wins. In its last report, Fitch Ratings said that the presidential elections of October 7 will have a limited impact on the country's credit rating, regardless of who wins. According to the document, Chávez's victory "*may result in few changes in the present policies*" consistent with the weakening of the country's credit profile; while "*Capriles's victory wouldn't be an instant panacea for the economic problems*" since he would have to confront the challenge of "*maintaining popular support and governance*".

But if Chávez wins it is worse. In its last report about Venezuela, Morgan Stanley states that "*Venezuela could default on its debt payments, even in the second semester of 2013, if President Hugo Chávez is reelected*". The text highlights factors like nationalizations, endemic inflation and lack of fiscal discipline as the causes for the country's risk to default on payments, and the fact that the Venezuelan debt is no longer in the hand of large banks, but in a disperse group of creditors, makes its restructuring even more difficult.

Liquidity issues. According to the last balance of the Central Bank of Venezuela, liquid international reserves that by August were US\$2.14 billion, dropped 54.1% compared to December, 2011. The drop in liquid reserves, which represent 8.3% of total reserves, is an important reason to believe that delays in foreign currency assignments by Cadivi could worsen, so Sitme is becoming an increasingly viable option for companies requiring foreign currency.

Nothing to worry about, isn't it? According to the IMF, monetary gold of the international reserves decreased 3.7 tons from its level of June reaching 362 tons.



This decline of 1% in the volume of monetary gold is not worrying, as the current volume of gold is similar to the 362 tons average held for the past five years. In Ecoanalítica we regard as most important the unavailability of cash reserves and the fact that by the end of August the 60% of international reserves depends on the fluctuation of gold prices

Shinier ingots. The stimulus policy recently announced by the FED would lead to a drop in the US dollar, so investors are taking refuge in gold, driving its price upwards. For Venezuela, with 73% of its international reserves in gold, the recovery of the gold would be good news, and although traditionally authorities have refused to convert part of the gold ingots into dollars, in cases of emergency it is always good to have a little more.

“Monopoly” bills. The BCV has implemented a public consultation regarding “*the design, manufacture and use of the communal currency*” to facilitate bartering. Thus, the BCV is starting to comply with the Law of the Communal Economic System, approved in December of 2010. The value of the exchange of “communal currencies” will be established according to its equivalence with the legal currency, however, it may only be used in the community that creates them, and may not be exchanged for bolivars.

Printing bills. Communal bills may be manufactured through any public or private institution, selected by the assembly of “prosumidores” (consumers and producers). The bills must have a water mark, a serial number, must be 100% cellulose paper, and must expressly indicate that they are not liabilities or obligations of the “Grupo de Intercambio Solidario” that creates it, and won’t have the character of a legal currency.

Options are extinguishing. According to figures of the Ministry of Planning and Finances, by the end of September 21, bonds were placed for VEB 79.4 billion, or 84% of the debt programmed for 2012, which is VEB 94.50 billion, so the direct indebtedness capacity of the government is increasingly lower. Originally, the indebtedness was contemplated at VEB 64.50 billion, but in the beginning of the second semester of the year, the government negotiated an additional debt for VEB 30.0 billion to pay for pensions and labor liabilities.

Living on the breadline. To move forward in placing the remainder of the debt, the Ministry of Finance has resorted to allocate it to official entities. An example is last week’s special offer for VEB 10.0 billion, with the participation of State banks and several pension funds, through which VEB 4.50 billion were assigned. The information reveals that for the year, VEB 18.70 billion in complementary debt has already been allocated.



Resorting to banks. State banks, formed by the following: Venezuela, Bicentenario, Industrial, Agrícola and Tesoro, have become another important source of financing for the government, given its need to increase public spending. According to data published by Sudeban, by August the bonds and securities that these banks have purchased from the Ministry of Finance amount to VEB 62.34 billion, a 34% increase compared to August of last year.

Little intermediation. Since it owns most of the State Banks, in theory it would have the advantage of fostering projects in areas that allow the diversification of the economy and increase the population's access to credit. However, according to the last report of Sudeban, at the end of August, private financial entities destined on average VEB 62.14 of every VEB 100 deposits to credits, while State financial entities only loan VEB 39.1 of every VEB 100.

Interest rates. The lending rate for the third week of September was at 17.0%, up by 0.4 percentage points compared to the previous week. The time deposit rate remained unchanged since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 1.6%, going from US\$25.2 billion during the second week of September to US\$24.8 billion during the second week of September. Compared to the same period last year, international reserves have decreased by 19.5%.

Monetary liquidity. Monetary liquidity (M2) grew by 0.9% in the second week of September compared to the previous week, settling at VEB 560.741 million. The M2 has increased 56.7% in relation with the same period last year.

Sitme figures. So far this year, US\$7.7 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.66 billion (27.7%) over the same period of 2011, when US\$6.0 billion were negotiated. Lastly, during the third week of September the amount traded reached US\$202.4 million, US\$3.9 million less than the previous week when US\$206.3 million were traded, with a daily average of US\$44.1 million.





Oil Tips

Pdvsa must pay US\$66.8 million to Conoco. Conoco Phillips informed that the International Chamber of Commerce established that Pdvsa must pay US\$66.8 million for non-complying with the prior agreements of the strategic association in the faja del Orinoco, Petrozuata, by implementing production cuts ordered by OPEC between 2006 and 2007.

The fire lasted 3 days. Last Wednesday, September 19, lightning struck on two naphtha tanks at the El Palito refinery¹ causing a fire that could be extinguished only on Friday around midnight. Asdrúbal Chávez, vice president for trade and supplies of Pdvsa, informed that *"the refinery is in completely normal conditions"* and *"for 50 hours, more than 200 brave and professional firefighters worked day and night, as a support during the event, until the fire was finally extinguished"*.

"Thank God" the peripheral equipment of the tanks were in good condition, because they received maintenance recently, said Robert González, executive secretary of the Unitary Federation of Oil Workers of Venezuela (Federación Unitaria de Trabajadores Petroleros de Venezuela - Futpv), however, he said that the Federation has warned the authorities that the equipment with problems are sprinklers, and smoke and heat detectors.

Processing is normal. In a communiqué of the State owned company, Jesús Sánchez, General Manager of El Palito, said that the complex is operating normally, and guaranteed the continuous processing of crude oil and the supply of fuel to 10 States. The tanks store according to a Schedule, that is, the store products for a short time, so their damage didn't affect the crude oil processing capacity of the refinery.

The fire in El Palito generates fears. A note by Reuters mentions that the accidents occurred in two refineries in Venezuela generate doubts in foreign clients regarding export flows, but Rafael Ramírez, Minister of Oil and Mining, denied that there were problems. *"Exports are normal, they are under control"*, he said.

¹ The El Palito refinery is in the coast of Carabobo. It presently has a maximum processing capacity of 135,000 barrels per day (kbd), part of which destined for the local market (particularly the central-western part of the country) and the rest is exported.



Amuay won't start up completely. Despite the promise that the refining center would be fully operational two weeks after the accident, the truth is that the safe startup phase remains, and the situation is expected to last between three and four months.

At half speed. Although the debris in the area housing the gases have been removed, work cannot start until the experts of international companies finish their work, as well as the investigations by national entities. At present, the plant is working at 51.5% of its processing capacity.

...and Pdvsa appeals. Pdvsa will present new allegations to the international tribunal before considering payment of US\$66.8 million to Conoco Phillips. Rafael Ramírez, Minister of Oil and Mining, said that the US Company used a letter signed by a middle level executive of the company for its suit, stating that there would be an indemnity in the event of production cuts. The official said that they are requesting a criminal investigation of this director before the Attorney General's Office.

Ramírez with the Chinese. Rafael Ramírez, Minister of Oil and Mining, devoted himself to meet with representatives of the Chinese company Citic, who came to the country to sign mining and oil cooperation agreements. The representatives of the Chinese company visited the mixed company Petropiar, in which Chevron has 30% and Pdvsa 70%, and the latter would reduce part of its majority share so that Citic participates.

Tooth and nail. That is how Rafael Ramírez, President of Pdvsa maintains that the company's debt (US\$32.49 billion) will be 47% of its capital by the end of 2011 (*sic*), stating that it a normal range and that the firm reinvests it in the industry. *"It is in a range similar to many oil companies, but there is another index, the income before social development contributions, and there we have US\$47.30 billion, and it is well established for all companies that they can become indebted by twice that amount"*, said Ramírez.

The chip in the freezer. When the government announced placing a chip in vehicles to regulate gasoline smuggling, around 100 cars per day went to the centers doing it, however, in the last few days, only between 20 and 30 cars go. Likewise, of the 27,000 public transportation units in Maracaibo, only 12% have the device. Spokespersons indicate that there is a general apathy, because people don't agree with the regulation, and are waiting for the results of the elections, since the opposition candidate promised to eliminate the device if he won.

International baskets. Last Friday September 21st in New York, WTI closed at US\$95.0/bl, which shows a decrease of 2.2% compared to US\$97.1/bl recorded the



previous week. Meanwhile, Brent fell by 2.9% to reach US\$ 112.1/bl compared to the previous week when it reached US\$115.4/bl.

Local basket price. On Friday, September 21st the Venezuelan oil basket price closed at US\$102.8/bl resulting in a decrease of 2.2% compared to US\$105.2/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.2/bl.

Business Sector Tips

Misión vivienda: 53% of the goal In an event to present housing units in Sucre, Rafael Ramírez, Minister of Oil and Mining, informed that in 2012 106,049 housing units have been finished, representing 53% of the goal for the year (200,000 units). At this pace, the Administration, private entities, and communal councils must finish 93,900 units in three months.

Food shortages denied in the regions. Carlos Osorio, Minister of Food, denied that there were food shortages in Zulia, Maturín and Nueva Esparta. He said that they are constantly monitoring and evaluating the distribution network, and if they see a shortage of some product, they take immediate steps to solve it, although he admitted that the demand in the sector is very dynamic. He also said that food reserves are sufficient to meet the needs of the population for 2 to 3 months.

Just lies. Regarding the claim made by the Venezuelan Chamber of the Food Industry regarding the refusal of 35% to 40% of the guides to mobilize processed foods like flour, rice, pasta, oil, coffee, and powdered milk destined to Táchira, Mérida, Apure, Zulia and Trujillo by the Superintendence of Silos, Stores, and Warehouses, Minister Osorio said it was false. *“For those large chambers, food is a merchandise, but for the government it is a product to meet the needs of the people, so we make sure that they arrive in a fair and balanced manner to the population”*, he said.

Dangerous roads. Pedro Rivas, president of Fedeaagro, said that due to the bad condition of the roads, moving agricultural products is taking between 24 and 36 hours, which translate into losses for producers. Regarding prices, Rivas reiterated that the review must be continuous and timely. He explained that detailed cost



structures are always presented to the Administration, and when prices have been reviewed, they never cover the needs expressed.

Jorge Botti: *"It isn't strange"*. This is what Jorge Botti, President of Fedecámaras, said during the "4th Meeting for Progress, Entrepreneurship and Reconciliation" referring to the report that places Venezuela in the last place of the Economic Freedom Index of the world. He explained that there are no jobs in the country, there are increasingly less spaces for the productive sector, and consumers have fewer opportunities.

What does Fedecámaras expect? Botti considers that corrections must be made as soon as possible, for example, to de-criminalize the exchange regime, recover the real salary of workers, and increase the productivity of companies.

"Monopolic and oligopolic economies are being promoted". Botti also pointed out that the preference of supplies towards socialist companies impedes the proper supplying process of small commercial businesses. *"The big, state-owned enterprises have begun to supply popular businesses and are leaving the needs of the others aside. This is promoting oligopolic and monopolic economies, causing the disappearance of 60,000 companies"*, Botti explained.

Electric power sector figures in the red. Alí Briceño, Executive Secretary of the Federation of Workers of the Electric Power Industry (Federación de Trabajadores de la Industria Eléctrica - Fetraelec) said during the forum "Does the Venezuelan electric power crisis have a solution?" that the National Electric Power Corporation (Corporación Eléctrica Nacional - Corpoelec), a state-owned company that merged fourteen companies by decree at the end of 2011, *"has a cash flow deficit of 40%"* which limits payroll payments, operations, and maintenance of its infrastructure, *"so technically it is broke"*.

Good-bye Hyundai? Although the company has not announced it formally, the decision has been made: MMC Automotriz will assemble Hyundai cars only until this year. However, this doesn't mean that the Brand will abandon the market, only that Hyundai Corporation decided to manage its production operations. In fact MMC Automotriz will continue with the right to market imported Hyundai cars.

Banks finance the State. The group of state financial entities, made up by the following banks: Venezuela, Bicentenario, Industrial, Agrícola and Tesoro, has become an important source of financing for the government. Official statistics state that by the end of July of this year, these banks have bought bonds and securities from the Ministry of Finances for VEB 62.34 billion, an increase of 53% with respect to July of last year. Within the plan to increase public spending, which is over what it



collects through taxes and the oil rent, the government is resorting to debt in bolivars to meet the accounts.

Private health collapsing. The executive director of the Venezuelan Association of Clinics and Hospitals, Cristino García, informed that the private health sector is currently “collapsed” because of what he calls “*the emigration of patients*” from public to private health care centers that has been occurring for about two years. “*There are 3,000 beds in Caracas ‘ public health care sector, and 42,000 in Venezuela that are not operative*”. He also added, that 10 of the 14 big public hospitals in Caracas have been in re-modelation process from 3 to 5 years, and that causes the private sector to concentrate 38% of the patients’ population.

World Economy Tips

Slower than expected. IMF’s Managing Director Christine Lagarde stated that the organism would be preparing to reduce its global growth forecasts. Lagarde announced that the IMF continues to forecast a gradual recovery of the world economy, but “*the growth shall be a little slower than what he had anticipated last July*”. As stated by Ms. Lagarde, the uncertainty on the promises made by politicians from the developed economies is the main factor of the current global economic scenario.

Europe: more money for aid. According to the German magazine De Spiegel, countries in the Eurozone are preparing an increase in the loan capacity of the future European Stability Mechanism (ESM). A greater availability of funds would help the large economies like Italy or Spain. At present, the ESM has a capital of EUR 500.0 billion, and the reform would increase its capacity to EUR 2.0 trillion, through private investments, following the model of the European Financial Stability Fund (EFSF).

China: growth of manufacturing slows down. The last figures published by HSBC for September indicate that the sector’s growth is decreasing, but is stabilizing. The manufacturing situation has harmed the labor market, leading Beijing to announce new economic fostering programs. China has marked the pace of the world economy due to its role as an export power, and also affects the growth of the emerging economies as the largest purchaser of raw materials and energy.



“Strong winds” affect world trade. The World Trade Organization (WTO) reviewed its global trade growth forecast, and now says that global growth for 2012 will be 2.5%, compared to 3.7% in its prior forecast. A WTO report states that *“the world economy is facing increasingly stronger winds”* referring to the debt crisis in Europe, the uncertainties of the US economy, and the slowdown of China, its main reasons to review the commercial exchange growth figures.

Japan will put more money on the streets. In agreement with the measures taken recently by the US FED, and the European Central Bank (ECB) to drive their economies, the Bank of Japan announced it would expand their purchase of assets in 10.0 trillion yen more, so as to stimulate the Japanese economy given the weak growth of global demand. The present purchasing program, which is presently 80.0 trillion yen, will include the purchase of Treasury bonds and government debt, and will be completed for the end of 2013.

US: Inflation increases. According to the Bureau of Labor Statistics (BLS), the consumer price index for urban areas (CPI-U) increased 0.6% in August, a variation of 1.7% with respect to the same month last year. The increase in the price index has been the greatest since June 2009, partly because of the 9% increase in the energy price index, which had accumulated four consecutive months of drops.

A great threat. According to the last poll of the PEW Research Center, Americans are concerned by the increasing economic power of China, and most believe that the government should assume a strong position before the Asian giant regarding trade agreements and other economic matters. Nevertheless, Americans consider that a greater growth will contribute to develop a more democratic political system in the Asian giant.

Japanese will no longer fly to China. In another chapter of the dispute between China and Japan for a group of islands in the China Sea, Japan Airlines announced that it will temporarily reduce flights from Japan to Beijing and Shanghai. A company spokesman didn't say whether the cancellations are directly related to the conflict with the islands, and said that the airline had been "seeing irregular changes in travel demand".

Stampede! Luxury brands are the first to abandon Argentina, and they are doing it massively. The first to abandon the ship were Ralph Lauren, Calvin Klein, Ermenegildo Zegna, Escada and next month, the French jeweler Cartier is expected to be part of the list. The South American country is trying to contain the fall of its trade deficit through a strict exchange control, which has become a significant import barrier, hindering the operations of companies that market imported goods.



Brilliant. The meager economic recovery has not prevented tourists from visiting the United States. According to the latest data of the Department of Commerce of that country, tourism increased 2.1% (a/a) during the second quarter of the year, after registering a growth of 4.9% (a/a) during the first quarter. Tourism is still one of the “brilliant points” of the US economy, and according to the Trade Secretary, “it is close of reaching record export levels this year”.

Political Tips

It's raining polls. Just a few weeks before the presidential elections, only a couple pollsters still have not made their predictions public. Consultores 21, Datanálisis, Varianzas, GISXXI and HInterlaces are among the pollsters that have published their forecasts so far. The winner, the gap of undecideds and even abstention are some of the aspects (besides the methodology) that vary from pollster to pollster.

The big surprise was given by Consultores 21, which believes that the MUD candidate, Henrique Capriles Radonski would receive 47.8% of the votes, and thus win against Hugo Chávez's prediction of 45.7%. The pollster also carried out a “secret vote simulation” experiment, in which Capriles obtained 48.9% of the votes, while Chávez obtained 45.7%.

Anybody can win. The last evaluation made by the pollster Varianzas shows that there is still chance for both candidates to win the electoral race in October 7th. The results of the last poll by Varianzas give Chávez the victory with 49.7% vs. 47.7% to Henrique Capriles, but the forecasting error of 2.16% makes it clear that any of the two candidates can become the next President of the Republic.

The gap closes. According to data from the last survey of Datanálisis, president Hugo Chávez, candidate for reelection, would obtain 55% of the votes in the upcoming elections, while Henrique Capriles would obtain 45%, a gap of 10 points in favor of the Venezuelan president; this advantage has decreased 5 percent points for the month of September and is below the 11% of the undecided.

We would end up as we started. According to Datanálisis 83.6% of those that are “undecided”, or didn't respond, and that made a decision about their vote in the upcoming presidential elections between May and September, have tended towards



Henrique Capriles. If this trend continues, the pollster expects a technical tie, with an intention to vote for Chávez of 50.4% , and of 47.2% for Capriles.

Chávez or Chávez. Jesse Chacón, director of the pollster “Grupo de Investigación Social, Siglo XXI”(GIS XXI), said that according to the scenario in which the undecided act, the elections will be decided by a difference of 10 to 18 points in favor of Chávez. Chacón explained that in the best scenario for Chávez, if his campaign command captures the votes of the undecided, the intention to vote in favor of the reelection candidate would be 60.1%. According to GIS XXI, 14% of Venezuelans have not decided whether they will vote or not, and if they will vote, they don't know for whom.

Other scenarios are unnecessary. According to the pollster Hinterlaces, the president of Venezuela and candidate for re-election Hugo Chávez would receive 50% of the vote intentions, while the candidate of the opposition Henrique Capriles would receive 34%. Oscar Schemel, Director of the pollster pointed out that the firm is currently forecasting two scenarios where Chávez would result the winner of the elections, so other scenarios would result unnecessary.

Great chances to win. During an interview with the newspaper *El Universal*, political consultant Juan José Rendón said that the opposition has more chances than ever to win, and that a high participation of voters could favor Henrique Capriles. Rendón said that given a high abstention rate, the government's capacity to mobilize voters included on their list of adepts may mark the difference; but if the people go vote, Capriles may win

An integral proposal with everybody's participation. Presidential candidate Henrique Capriles presented an integral proposal so that “*there are no deficits*” in education. The proposal includes the decentralization of resources and competences, to rescue the school infrastructure, as well as labor and training improvements for teachers, measures that are framed within the central idea that all can contribute with education, although some with more responsibilities than others.

Quality education for my country. While presenting his education project, presidential candidate Henrique Capriles said that he is thankful for having received a good education, something that he wants to achieve for the country. Capriles announced that if he wins on October 7, there will be an infrastructure plan that includes maintaining what already exists and constructing one thousand new high schools, 30 thousand day care centers, 900 pre-schools, and 40 university buildings.

Aveledo is the man. Armando Briquet, head of campaign of the Comando Venezuela, announced that Ramón Guillermo Aveledo, executive secretary of the



Mesa de la Unidad Democrática (MUD), was appointed by Henrique Capriles's team as liaison with the Strategic Operations Command (CEO) of the FANB, responsible for coordinating the "Plan República" during elections. The appointment of Avelado *"is very important for us, so Venezuelans can go out and vote with confidence and without fear"* said Briquet, who also added that they hope to have a coordination meeting with General Wilmer Barrientos, head of the CEO.

Zero sabotage. Officials of the National Bolivarian Armed Forces (Fuerza Armada Nacional Bolivariana - FANB) started to take over the electric power substations around the country, to monitor and prevent any sabotage against the power facilities, given the imminent presidential elections of October 7. Argenis Chávez, president of the National Electric Power Corporation (Corporación Eléctrica Nacional - Corpoelec), said that the security plan is also *"being implemented preventively to dissuade any sabotage that the political right sectors could be planning to cause discontent in the population"*.

"Operation victory". During a press conference, Leopoldo López, national coordinator of Comando Venezuela, said that around 117,000 people will participate as witnesses on October 7 to defend the votes of candidate Henrique, in what has been denominated "operation victory". López said that they will have witnesses in almost all the 40 thousand voting stations, prepared to *"guarantee that the law is complied with"* and ensure that a single vote is issued by each elector.

Stepping up the pace. During a campaign event in Mérida. Hugo Chávez, president of the republic and candidate for reelection, called on its supporters to *"step up the pace, like good troops"* during the last two weeks of the presidential campaign. The head of state also asked to *"increase the street by street and house by house deployment"* so that his campaign reaches the furthest confines of the country, *"we will win, but we are the ones that have to build, achieve, and crown the great victory"*, he said.

Only in socialism. Chávez also said that the *"bourgeoisie is trying to disguise itself as almost revolutionary"*, because according to him, they defend social programs (misiones) when before they attacked them. "The misiones are only possible in a socialist government", said the head of state, who also said that his government has created 22 new universities and is planning to create 5 more. Finally, Chávez said that *"if a mediocre (majunche) government wins, the people would be robbed of what we have achieved with so much effort"*.

Wipe out the oligarchy. *"Here in Trujillo we will wipe out the oligarchy, and so it will be in all Venezuela, let no one have any doubt about this"*, said Hugo Chávez candidate for presidential reelection during a campaign act in Trujillo. The head of



state used the occasion to reiterate the importance of the elections of October. "The life of the homeland is at stake (...) either we continue building the good, pretty and new Venezuela, or the bourgeoisie will come in to destroy the homeland", he stated

The best democracy in the world. During the yearly conversation of the Carter Center, Jimmy Carter, former president of the US, and president of that foundation, said that after monitoring more than 90 elections in several countries he can say that "*the electoral process in Venezuela is the best in the world*". Carter also praised Venezuela for having an automated voting system that also provides physical evidence and facilitates the verification of results.

Unasur will be an impartial observer. Carlos Álvarez, head of the Electoral Mission of the Union of South American Countries (Unasur), said that the organization's representation "*has no ideological bias*" and is "*impartial*". He also said that the Venezuelan electoral system is "*one of the most advanced and transparent of the region, since it allows several types of audits*." Álvarez also expressed his intention to meet with those responsible for the campaign committees, both of the opposition and the government.

Legislative Tips

Investigation commission ready. On Tuesday, September 18, during the plenary of the National Assembly (NA), the appointment of a special commission to investigate the case of the representative of Primero Justicia, Juan Carlos Caldera accused for allegedly committing crimes of corruption, was approved, formed by Elvis Amoroso president of the commission, together with socialist legislator Luis Acuña, and representative Hiram Gaviria, representing the MUD. The MUD approved the appointment of a special commission to investigate the case, but refused to vote on the items of the agreement that indicate that representative Caldera committed an unethical action.

And Juan Carlos Caldera quits. Representative Juan Carlos Caldera announced during the plenary of September 18 that he is leaving his post at the NA. He said that he made the decision "*to facilitate the investigation to which I will submit*". Caldera intervened during the discussion, in response to the draft agreement on the alleged acts of corruption of which he is being accused. He qualified the document as an "*a priori sentence of guilt*". Despite considering that just with that agreement he is being



judged as guilty, he reiterated his commitment to *“present before the country’s institutions”*.

Interrogating Capriles under discussion. Representative Elvis Amoroso, president of the special commission investigating the alleged irregularities committed by Juan Carlos Caldera, informed that there is a possibility to summon presidential candidate Henrique Capriles Radonski. *“The investigation will tell us whether to do that or not”*, said Amoroso. He didn’t rule out that businessman Wilmer Ruperti could also be interrogated, and said that they expect to present the report on the case before the elections of Sunday, October 7, and that the questioning will be public.

Social laws in the back burner. Julio Borges, representative for Primero Justicia, claimed that six draft laws with social impact, like the law for disarmament, first employment, the fostering of production, regularization of the misiones, the padlock law, and the reform of the food law to grant food stamps to pensioners, have been taken to the Parliament (some with the support of thousands of signatures) and the PSUV isn’t discussing them. *“The President has repeated for 14 years that he only cares about social issues, but the only thing he cares about is to remain in power and control everything”*, said Borges.

Polar presented an appeal for nullity. Cervecería Polar presented before the Supreme Tribunal of Justice (Tribunal Supremo de Justicia - TSJ) an appeal to nullify the Reform of the Law of the Stamp tax of Aragua. In a press release, Cervecería Polar announced that it also requested a precautionary measure to immediately protect the company and the jobs that depend of it. He added that the measure requested is added to the appeal of unconstitutionality presented by the company last August 7, and says that they trust the TSJ.





ECONOMIC OVERVIEW

