

The Art of Debt: Nearly defaulting on China

In a context marked by a dramatic escalation of international restrictions –sanctions, default, oil production collapse, among other things- and on the verge of completing one year of hyperinflation, Nicolás Maduro, within the framework of the launching of the Economic Prosperity and Recovery Plan, has again knocked on China's door in an attempt to kick-start what he himself has described as a “new stage” of the *revolutionary* economic policy.

And, after a two-year break, which could be summarized as a long grace period, without any disbursements, China, once again is in a key position, and the focus of public opinion, due to the significant potential role it can play on the immediate future of the current crisis.

As has been the case in the over ten years of relations between China and Venezuela, the information regarding their agreements, is anything but transparent and largely limited to scattered statements issued by this or that spokespersons and/or independent investigation. The current case is not an exception to the rule. The lack of transparency in which the deals have been struck, and the way that financial resources have been executed, will become these agreements one of the most remarkable act of corruption on the last 20 years.

Beyond the “*resounding success*” and the 28 agreements relentlessly mentioned by Maduro in his multiple speeches, and the USD 5.00 billion of additional financing confirmed by Simón Zerpa¹, the official details of the talks that took place in China a few weeks ago continue to be unknown. Notwithstanding, we, at **Ecoanalítica**, have been able to learn that, essentially, the desired goals were not attained. Without a renewal of the grace period (the prime objective of the negotiations), and with a limited and severely committed disbursement and, hence, little margin of freedom to use the funds, the government is set out to face a fourth quarter (4Q2018), and 2019, with the same set of tools, and restrictions that they had before the negotiations.

This report is aimed at summarizing the whole story and the road that has brought us to this point; what the government said and what it didn't say; about the negotiations and the short- and medium term implications of this latest stage of the Venezuelan economy. At **Ecoanalítica**, we consider that, if oil production keeps falling, and the judicial cases

¹ Finance Minister.

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result in an increase of extraordinary obligation, Venezuela will not have the capacity to fulfill its obligations with China.

How much are we talking about?

Over eight years, up to early 2018, China has transferred close to USD 50 billion to Venezuela through four different schemes that, put together, comprise what is known as the *Joint China-Venezuela Fund (JCVF)*². As we have mentioned in previous reports, the JCVF architecture divides these four schemes into short-term stages (A, B and C) and a larger-scale loan called “*Large Volume and Long Term*”, the disbursements of which have been structured as follows:

- **Stage A:** USD 12 billion in three disbursements (2008, 2011, 2014)
- **Stage B:** USD 13 billion in three disbursements (2009, 2012, 2015)
- **Stage C:** USD 5 billion in a single disbursement (2013)
- **Large Volume and Long Term:** USD 20 billion in two disbursements (2010, 2011); one disbursement was close to USD 9 billion (2010) followed by one of USD 11 billion in 2011.

Furthermore, although less detailed and with more restrictions than the disbursements already described, we, at **Ecoanalítica**, maintain the record of a credit directly granted by China to Pdvsa in the first quarter of year 2016³. So, if we add this last point to the different disbursements comprising the JCVF, we obtain a total financing of USD 54 billion since 2008.

	Disbursements MM USD								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Stage A	4,000	-	-	4,000	-	-	4,000	-	-
Stage B	-	4,000	-	-	4,000	-	-	5,000	-
Stage C	-	-	-	-	-	5,000	-	-	-
Great Volume	-	-	9,000	11,000	-	-	-	-	-
Pdvsa	-	-	-	-	-	-	-	-	4,000
Disbursements	4,000	4,000	9,000	15,000	4,000	5,000	4,000	5,000	4,000

Sources: Pdvsa, Mefbp and Ecoanalítica

² It's worth highlighting that the disbursements made by China correspond to just a part of the aggregated JCVF. The “joint” character of the fund comes from a payout series by the Development Fund.

³ For the purposes of subsequent calculations, this portion of the aggregated debt is treated as a short-term stage, considering the lack of details on this subject.

How does it work?

Essentially, the agreement states that the different payments should be made based on a determined number of barrels of crude oil and byproducts⁴, depending on the price of oil. In this regard, all payments are executed continuously by Pdvsa, both principal and interests. It's worth noting that, as far as contracts are concerned, Pdvsa and the Republic operate as two different legal entities. Therefore, all payments relative to the debt portion contracted by the Republic through the Bank of Economic and Social Development of Venezuela (Bandes) are translated into a tax benefit for Pdvsa as long as the different shipments are to be considered by the tax authority as *royalty payment in kind*.

Based on the information we have at **Ecoanalítica**, the different stages are amortized simultaneously and have a differentiated interest rate, depending on the time horizon they contemplate⁵.

With the exception of the *Large Volume and Long Term*, the amortization of which was budgeted over a period of ten years, as the stages were fully paid up (approximately three years), they were renewed automatically:

- Following an initial disbursement of USD 4.00 billion (2008), *Stage A* was renewed twice (2011 and 2014) for another USD 8.00 billion (two disbursements equivalent to USD 4.00 billion each). Both tranches were renewed automatically once Venezuela payed the initial loan.
- Following an initial payment of USD 4.00 billion (2009), *Stage B* was renewed twice for an aggregated amount of USD 9.00 billion divided into two disbursements: USD 4.00 billion in 2012 and USD 5.00 billion in (2015).
- With an amount of USD 429 million pending payment⁶, at **Ecoanalítica** we estimate that *Stage C* hasn't been fully amortized. Additionally, we have serious doubts about a possible renovation of any of previous stage.

⁴ The final number of barrels that will comprise the debt service will largely depend on the evolution of oil price.

⁵ For the short-term stages (A, B and C), the scheme proposes a variable interest rate, LIBOR (three months) + 250 base point (bp), whereas the Large Volume and Long Term proposes LIBOR (three months) + 450 bp.

⁶ Estimated as of end-2018.

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All for one and one for all...

Since the first disbursement in 2008, China has been one of the main international allies of Venezuela. In a setting marked by high oil prices (USD 87.6/bl from 2008 to 2014⁷) and a stable production averaging 2.84 million daily barrels (mb/d) (2008-2014), China granted USD 45.0 billion, 83.3% of the total disbursements received by Venezuela over the last ten years. This fact occurred under a scheme marked by continuous refinancing by China to a key energy ally that, to date, exhibited a relatively robust payment capacity.

This positive perception by China toward the Venezuelan government translated into almost another USD 9.0 billion financing (16.7% of total) over a period when the collapse of oil prices set the tone and oil production already exhibited certain signs of deterioration⁸. However, the core of this relation relied on the systematic compliance with the different obligations by Venezuela.

In this regard, of the USD 54.00 billion referred to above, Venezuela has paid close to USD 30.394 billion (USD 38.768 billion when the interest payment is included) between 2008 and 2017, with an average debt service close to USD 3.876 billion (considering a peak of USD 6.637 billion in 2014 a three years over the threshold of USD 5.00 billion).

	China (Outstanding) MM USD										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018P
Outstanding (total)	3,194	5,253	11,893	22,823	23,368	23,573	21,881	21,506	23,606	23,606	19,283
Stage A	3,194	1,932	837	3,412	2,496	1,249	4,004	2,895	2,570	2,570	1,830
Stage B	-	3,321	2,225	902	3,915	2,668	1,512	5,318	4,968	4,968	4,171
Stage C	-	-	-	-	-	4,616	3,104	1,739	1,339	1,339	429
Great Volume	-	-	8,831	18,509	16,957	15,039	13,261	11,554	11,054	11,054	9,917
Pdvsa	-	-	-	-	-	-	-	-	3,675	3,675	2,936
Debt Service	1,023	2,169	2,945	5,116	4,494	5,919	6,637	6,256	3,039	1,169	5,492

Sources: Pdvsa, Mefbp and Ecoanalítica

However, as we have noted in previous reports, restricting the analysis to the debt service means looking at only one side of the picture and doesn't tell the whole story. We have to consider the net *flow* obtained from subtracting the aggregated debt service for the same period from the financing received each year, derived from the different disbursements.

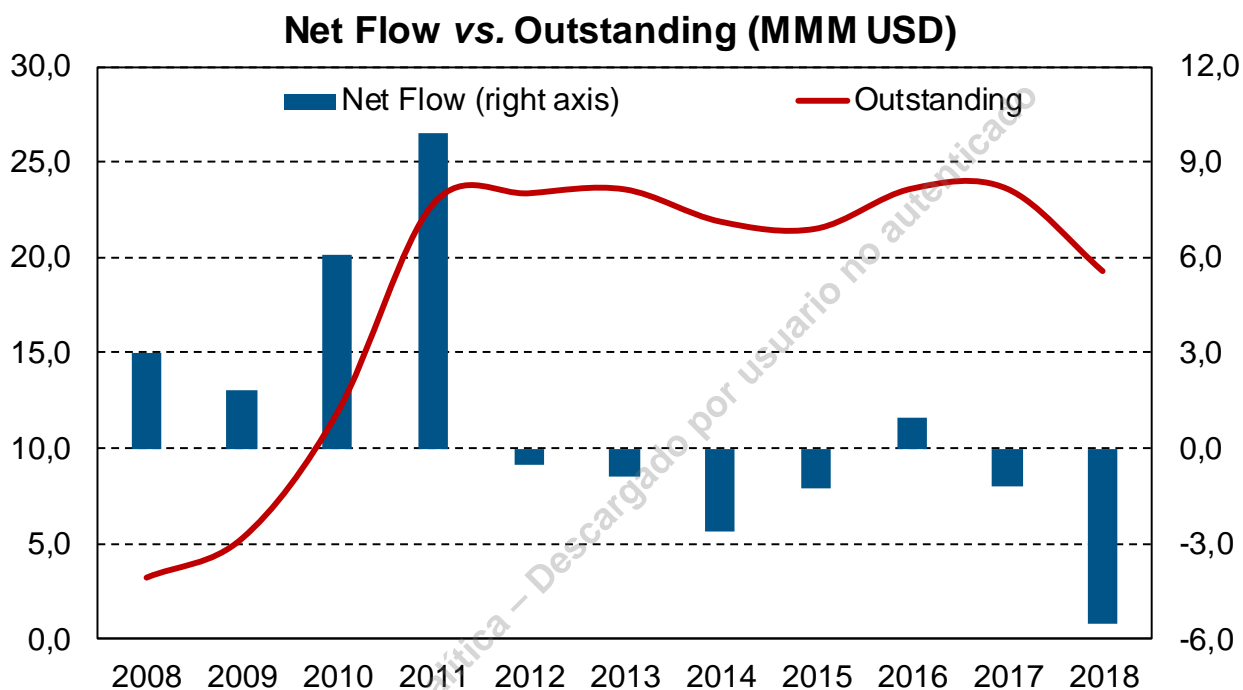
Therefore, in spite of a high debt service after 2011 (year of the last disbursement from the *Large Volume and Long Term*), China's willingness to refinance Venezuela translated into the opening of new stages and continuous renewal of the existing ones, was largely

⁷ Average.

⁸ In 2014 (2.77 mb/d), the Venezuelan oil production fell for the third year in a row since 2011 (2,89 mb/d).

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compensated for the payments made by Venezuela since 2012 (except for 2016). In other words, if we reduce the analysis to the aggregated net *flow* of the debt to the Asian country, we see that “net” payments made by Venezuela are barely negative and positive only in 2016.



Sources: Pdvsa, Mefbp and Ecoanalítica

This dynamics, characterized by a “net” payment that was relatively low, or close to zero, resulted in a significant stability of the amount owed to China over the last years. In this regard, with an average “net” payment close to –USD 917 million in 2012-2017⁹, the current debt to China has remained stable around an average of USD 22.293 billion over the same period.

Moreover, it’s worth highlighting that this dynamics, in spite of having been conceived in foreign currency, finds its synonym in the number of barrels exported. Pdvsa has delivered, on average, close to 164 thousand barrels daily (kb/d) to China to honor the

⁹ We take as year 2012 as reference, since this is the first year after the last disbursement regarding the *Large Volume and Long Term*.

payment of the different stages and further agreements concluded with China between 2008 and 2018¹⁰; 278 kb/d, on average, between 2014 and 2016¹¹.

From Heaven to Maduro in eight years

Notwithstanding, nothing is eternal. With Maduro having been governing for several years now, and a significant worsening of international restrictions, the dynamics has been adjusting itself simultaneously with China's perception of Venezuela. Faced with a change in the oil market fundamentals and the crisis acceleration, China opted for granting Venezuela a two-year period of grace with respect to the payments of principal. Consequently, after a last disbursement from China in early 2016, the relation between both countries took a break of sorts in which Venezuela paid close to USD 1.167 billion on a yearly basis between March 2016 and April 2018.

As months passed by, inaction in terms of economic policy, especially in relation to the exchange market, a number of corruption accusations, a dramatic humanitarian crisis, and the oil sector collapse, along with a generalized default of most of their obligations, compounded one by one, to a situation of uncertainty and neglect that significantly deteriorated the relations between China and Venezuela. A proof of this is the non-renewal of the grace period by China towards the middle of this year.

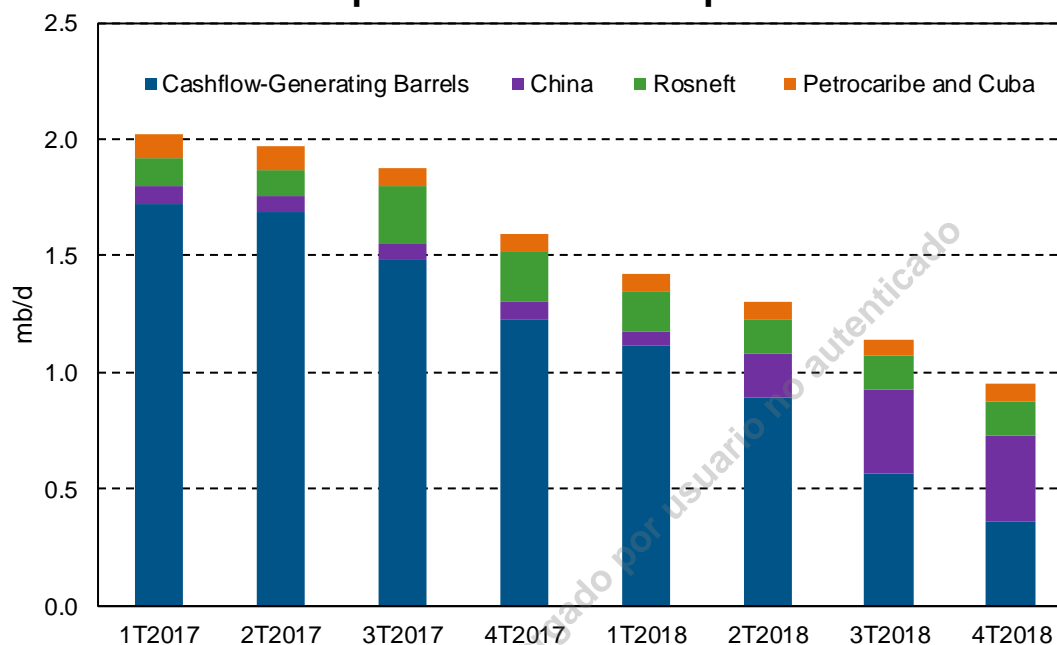
The weight of this last point can't be understated. When China opted not to renew the grace period, the resulting increase in the debt service would represent a fall of 176 kb/d in the cash-generating barrels for 2018, which, considering our estimates of oil production, domestic consumption and other obligations, would average 734 kb/d in 2018, 796 kb/d (52.0%) down from the level in 2017. However, taking a closer look, we find that the number of barrels would average closer to 569 kb/d in 3Q2018 (49.8% of the aggregated effective exports), and just 358 kb/d in 4Q2018 (37.7%), thereby pushing Venezuela into a cash deficit for the last quarter of the year, with this being the essential reason behind Maduro's visit to China a few day ago.

¹⁰ It's worth underscoring that this number largely depends on the oil price evolution. As long as oil prices decrease, the number of barrels required to honor the debt service increases and vice versa.

¹¹ Contrary to the popular belief, not all barrels shipped to China correspond to the debt service, depending on the oil price dynamics, there is a number of barrels that Venezuela will cash.

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Exported Barrels Composition



Sources: Pdvsa and Ecoanalítica

We, at **Ecoanalítica**, have learned that the Administration's aim regarding these negotiations was to obtain a new disbursement USD 5.00 billion) and a new six-month period of grace that would alleviate some cash pressure in the short term. However, since China refused the second request and disbursed an amount strictly adjusted to operations of China in Venezuela, and thus with little freedom in terms of use, the government is to face a fourth quarter (4Q2018) with the same set of tools, and restrictions, as those they had before they went to the negotiations.

Will 2019 be the divorce year?

With a debt service projected at USD 5.491 billion in 2018, we, at **Ecoanalítica**, estimate that the aggregated debt to China will close the year out at around USD 19.283 billion. However, it's necessary to go beyond this year.

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China (Outstanding) MM USD	
Outstanding (total)	19,283
Stage A	1,830
Stage B	4,171
Stage C	429
Great Volume	9,917
Pdvsa	2,936

Sources: Pdvsa, Mefbp and Ecoanalítica

Even though the debt service would tend to drop as the government makes the scheduled payments, options for 2019 appear to be limited. Starting from a drop of close to 250 kb/d in oil production and, hence, effective exports approaching 573 mb/d, and discounting the different shipments scheduled by virtue of the agreements with China (279 kb/d), Russia (69 kb/d) and others (50 kb/d), cash-generating barrels would amount up to around 226 kb/d in 2019, 508 kb/d (69.2%) down from 2018.

In terms of cash flow, this panorama would represent financing requirements close to USD 10.401 billion in an environment characterized by:

- A generalized default over the sovereign and Pdvsa curve.
- Unprecedented vulnerability in the foreign front as a result from sanctions and default.
- Imports at a minimum level parallel to an economic contraction estimated at close to 50.0% over five years and hyperinflation.
- An extremely deteriorated position in terms of foreign assets.

In this sense, given the impossibility of deeper cuts in imports, limited financing options due to the sanctions, the economic crisis and a deteriorated, vulnerable and partially committed asset position, we, at **Ecoanalítica**, believe that Venezuela will cease to honor its commitments with the Asian country, at least partially, next year.

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Outcome year?

Options are limited. With financing necessities of this magnitude, it looks like 2019 will be a crucial year. At the end of this year, the Government should settle all its position in International Reserves -USD 8,383 million at the time of writing these lines- and a significant percentage of what it has in extrabudgetary resources -USD 2,800 approximately until the month of August-. This is a strategy that, in addition to the severe complications at its execution due to the sanctions, will develop an unprecedented scenario in terms of fragility regarding the external Venezuelan scope.

Besides, coming from a total suspension of the proposed payments to China, the Executive will still have to face a deficit near USD 3,881 million, which will be hard to cover from an autarchy position. Imports will re-take a central role in the adjustment process -with the all the costs it includes-. The sun will rise and we will see.

Alejandro Grisanti
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WEEKLY INDICATORS

Weekly Economic Indicators			
	4th Week September	Weekly chg. (%)	Depre/Apre (pp) ¹
FX Dicom (VES/USD)	62.04	1.2	1.1
	2nd Week September	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	22.2	1.0	1.0
	3rd Week September	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	4.8	2.8	4.8
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.4	0.7	-15.0
	2nd Week September	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	102,286,212	28.4	27,251.0
Price of International Oil Baskets (USD/b)			
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
WTI	69.9	1.8	39.6
Brent	78.7	0.5	41.0
Price of the Venezuelan oil basket (USD/b)			
	3rd Week September	Weekly chg. (%)	Annual chg. (%)
Weekly Average	70.6	1.3	45.6
Annual Average	64.0	0.3	45.2

Sources: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

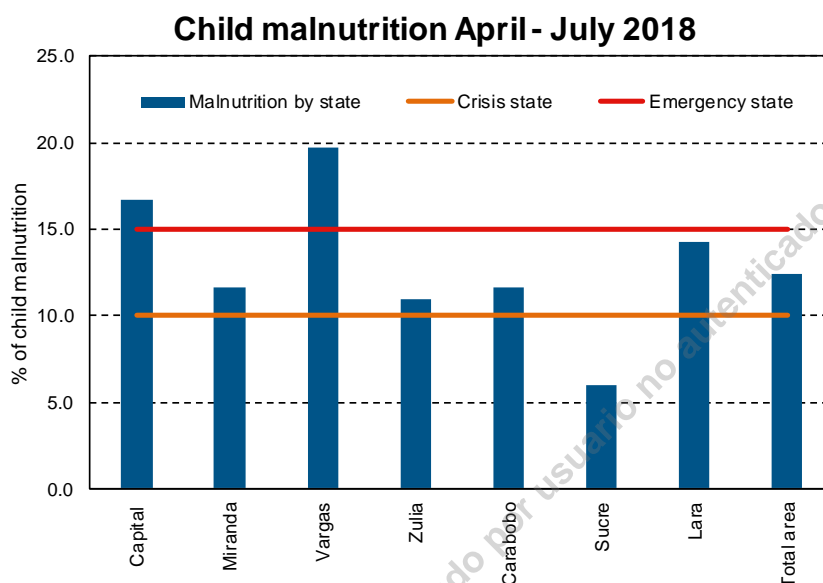
¹ Depreciation (+)/Appreciation (-)

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GRAPH OF THE WEEK: “THE HUNGER GAMES”



Sources: Cáritas Venezuela and Ecoanalítica

According to the World Health Organization (WHO), children under 5 years of age suffer acute malnutrition when their weight is very low in relation to their height. This condition is due to the fact that they don't take the food they require during their early years of life. Acute malnutrition causes 35.0% of the child mortality cases. Caritas Venezuela published its bulletin on the malnutrition levels in Venezuela corresponding to the second quarter of 2018. The results are anything but encouraging.

Taking into account a sample of the most populated states in Venezuela, the report released by Caritas reveals that between April and July 2018, Vargas State is the one that has been hit the hardest with 19.7% of child malnutrition, followed by the Capital District (16.7%) and Lara (14.3%). Venezuela, in aggregate terms, registers a level of 12.4% of acute malnutrition. According to the international standards, 10.0% of malnutrition is considered critical and 15.0% represents an emergency condition. Sucre (6.0%) is the only state included in the study that is not in a critical condition.

85.0% of Venezuelan homes, according to the report released by Caritas, are deficiently fed. In the second quarter of 2018, the minimum wage was increased three times. However, with monthly inflation averaging 126.2% (April-July), the purchasing power of the minimum wage in relation to the basic food basket increasingly dropped. Therefore, it doesn't surprise that child malnutrition is a situation increasingly serious in Venezuela.

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ECONOMIC TIPS

Petro: the coin. President Nicolás Maduro pointed out that starting October, petro would start to operate as a “*trade exchange coin*”, adding that the mechanism to be used by the account unit will be explained later. The only thing he guaranteed was that the future measure will provide “*great stability for the economy*”.

Difficult to cover expenditure? Maduro said that tax collection should be “*astronomically*” increased to reach the “*fiscal balance*” the Executive expects since the package of measures was first announced. Considering the spending level the government expects to maintain, an “*astronomic*” increase could not sound ridiculous.

NN-Dicom. V week. At the end of the third week of September, the Dicom market set the official exchange rate at VES 61.67/USD, which represents a 0.55% devaluation with respect to the exchange rate at the end of the previous week and just 2.27% since the system was relaunched.

Party Friday. Having maintained a similar behavior during the second week of the month, USD 3.2 million were allocated this last Friday, the highest amount in 2018.

Outstanding week for individuals. However, what truly stands out are the allocations for individuals. In the auction on the third Wednesday of the month, USD 916,693 were allocated and USD 1.5 million on the Friday of the same week. Until then, no dollars had been allocated for the year so far to individuals.

Far from the target? In the second week of September, the monetary base gained 39.9%, for a record high since this indicator has been monitored. This contradicts Nicolás Maduro’s statements assuring that “*we have reached the goal of zero inorganic money,*”

Another week, another record. Again, liquidity has posted an unprecedented growth. At the end of the second week of September, the weekly variation of liquidity was 28.1% to VES 102,286 million. Previously, in the last week of August, the indicator grew 26.04%.

Basic family food basket reaches VES 20,817. According to the report of the Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros (Cendas), the basic family food basket (CBF) reached VES 20,817 in August 2018, up 79.9% from the previous month and 70.748% from August 2017.

Worker’s Food Basket reaches VES 5,353.9. According to the last report by the CENDA, the Worker’s Food Basket (CAT for its Spanish acronym) reached VES 5,353.9

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on August 2018. This represents an increase of 39.0% compared to the previous month and of 406.0% compared to August 2016.

Family income only covers 0.6% of the basket. According to the report by CENDA, the minimum wage of VES 30, effective in August, 2018 had a purchasing power of 0.6%. Which means that, a family requires 178 times the minimum wage just to cover their basic expenses on food.

OIL TIPS

Against “Colombian scourges”... This week started the test period of the Biopago (Biopayment) system that will be used to pay for gasoline in Venezuela. The system has already been installed in Amazonas, Apure, Bolívar, Falcón, Delta Amacuro, Táchira, Sucre and Zulia states. According to the government, it's time for it to be applied in the rest of the country.

...defeating gasoline smuggling. The National Bolivarian Armed Force (FANB) is assisting in the installation of the system. At the same time, the government stated that citizens with the “carnet de la patria” are entitled to the gasoline subsidy; whereas those who don't, may pay through any electronic payment method.

Out of stock. Protests for gasoline shortage were staged in San Cristóbal, Táchira State, near the border with Colombia. The drivers who were demonstrating claimed that they had to wait for several days for the gasoline to arrive. The National Guard ordered them to go, but they blocked the street with tree branches, bottles, tires and garbage bags.

Which international price? In addition, the gasoline “international price” hasn't still been announced; theoretically, that price should be charged since last week.

It's ok to dream... Reuters news agency reports that Manuel Quevedo, Venezuela's Oil Minister, announced that Venezuela is production 1.5 million barrels daily (mb/d). In turn, there are plans to increase production up to 2 mb/d by yearend and 2.5 mb/d in a year.

Assessing the panorama. The meeting of the Joint OPEC-Non-OPEC Ministerial Monitoring Committee ended on September 23. The meeting discussed and assessed the short-term evolution of the global oil market. The Organization announced having reached conformity levels of 109.0% in July and 129.0% in August this year.

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Bootlicking.... Pdvsa's CEO/Energy Minister, Manuel Quevedo, met OPEC Secretary General, Mohammed Sanussi Barkindo. Quevedo informed that they discussed topics related to plans for the Venezuelan oil sector for the next year. According to Minister Quevedo, Venezuela will assume the chair of the OPEC Conference in 2019.

...Will you help or what?... Likewise, Quevedo seized the opportunity to talk about the critical situation of Pdvsa production, which will be discussed in the next OPEC meeting in next November, and to *"bring the voice of our beloved Venezuela to the 10th meeting of the Joint OPEC-Non-OPEC Ministerial Monitoring Committee."*

...because things are going to be tough. In this regard, Quevedo added that *"we must protect producers, consumers and investors for them to provide the capital required to continue to address investment in the oil market."* He underscored that 2019 will be a challenging year for the global market.

Another fight on Twitter. Donald Trump asked OPEC to respond swiftly in order to lower oil prices. Saudi Arabia Energy Minister, Khalid Al-Falih, stated that there are aimed at meeting crude oil demand. *"If we don't increase production it's because our customers are already receiving the barrels they require."*

Reopening. Reuters reported that the refinery in the Virgin Islands will restart its activities. Brian Lever, executive of Hess Corp., has been hired to work on the reopening of the refinery. USD 1.4 billion were invested to start production (around 20,000 barrels daily (b/d)) in early 2020.

BUSINESS SECTOR TIPS

"Criminals". Armando Chacín, president of the National Cattle Growers Federation (Fedenaga) rejected the threats and attacks received by milk and meat producers since the new meat price was set in VES 90. *"We, producers, aren't criminals; we're decent rural workers with duties and rights,"* Chacín claimed.

With a plan in mind... President Maduro said that producers didn't have any reason to reject the new meat price, because he has a meat supply plan in mind that will guarantee meat production, so that this product can be sold at VES 90.

...that only benefits the government itself. However, producers claim that what the government has proposed is that the regional governors take cattle out from the farms, transfer them to the slaughterhouses and then to the municipal markets and butcheries.

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“We are under the threat that the government will assume marketing and decide where our animals will be slaughtered and who they will be distributed, thus damaging the meat marketing chain,” Chacín assured.

34 prisoners. Nicolás Maduro also confirmed having detained 34 supermarket managers for *“having breached the law”* and *“hiding products.”* *“I have asked all the government institutions, and the people, to defend the fair prices agreed,”* president Maduro said.

The true cost of Clap boxes. The National Assembly reported that the government provoked millionaire losses to the country because of the surcharge paid for the products imported through the Clap program (local supply and production committees). Freddy Superlano said that losses have amounted up to USD 5.00 billion over the two last years.

It could have been, but it wasn't. *“In a crisis like the one the country is going through, much could have been done with this amount of money, for example, investing in the Venezuelan rural areas to generate production,”* Superlano pointed out.

Credit cards. The Banking Superintendent's Office (Sudeban) set the top limit for credit card at VES 50,000, as established in Resolution No. 073.18 of September 21; this amount is equivalent to 4,166,666 tax units.

Cash. Nicolás Maduro announced that public and private banks had 48 hours to “lift” the limit set on the cash amount that can be withdrawn at bank counters and progressively increase the cash amount that can be withdrawn from ATMs. He also assured that the government distributed enough banknotes so that there isn't any inconvenience with cash withdrawals.

Well guarded... Likewise, Sudeban informed that they are carrying out *“unscheduled inspections”* at banks throughout the country to guarantee that the cash withdrawal limit is lifted. Inspections are conducted jointly with officers from the Special Action Forces (Faes) and the National Financial Intelligence Unit (Unif), among others.

No way! Teachers protested at the headquarters of the Ministry of Education on September 21, to reject the disastrous conditions of public school in Venezuela. The Coalición Sindical del Sector Educación (teachers' union) reported that school buildings are not “suitable” to receive students.

On fire... A fire broke out at Hospital Jesús María Casal Ramos in Acarigua, Portuguesa State, forcing the evacuation of personnel and patients. Luckily, the accident didn't leave any victims, just property losses.

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...Due to electric faults. Later, the National Bolivarian Police (PNB) detected that the cause of the fire was a short circuit that occurred in the afternoon of the same day. The problems related to electric power in different parts of Venezuela are impacting an increasing number of citizens and no solution is envisaged for this problem...

Competing with Syria. According to the UN High Commissioner for Refugees (ACNUR), *"in its modern history, Latin America had never experienced an exodus of this magnitude."* ACNUR estimates that 800,000 Venezuelans will have left the country by 2018. The crisis Venezuela is going through has been one of the most serious, similar to the crisis in Syria.

WORLD ECONOMY TIPS

Trade milestone. US President, Donald Trump, and his colleague from South Korea, Moon Jae-In, signed a free-trade agreement that Trump described as a "historical trade milestone". Lately, the US has been trying to close bilateral trade treaties seeking for more favorable conditions than those that, according to Trump, would be obtained with multilateral treaties.

"Peace" will have to wait. The Chinese government cancelled all meetings scheduled with US officials to stop the trade war. The consensus in Beijing is that discussions could be resumed in November, after the mid-term election in the US.

The European Union opens the door for England. International sources stated that negotiators from the EU would be willing to offer Theresa May, UK Prime Minister, a free-trade treaty. The treaty will depend on the plan proposed by May to implement the Brexit, since Europeans are trying to maintain a customs-free border, including labor factor mobility.

The emerging markets recover. After being the two countries with the worst performance on the sovereign debt market in August, Turkey and Argentina have managed to partially reverse their condition. Argentinean bonds have gained 11.0% this month. Turkey, in turn, posted an increase of 8.4%, exceeding by far the average gain of 1.0% for all emerging markets.

Argentina is asking for help. Argentina's President, Mauricio Macri, said that his country could close a new agreement with the IMF in the "upcoming days". Argentina has already received USD 15.00 billion from the IMF; therefore, the Argentinean government

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committed to overcome their fiscal deficit and regain markets' confidence while the country is going through its severe financial crisis.

New draft. To attain this goal, Macri's administration presented a new draft budget for 2019. Argentina expects to reach the primary fiscal balance and cut economic contraction to 0.50% next year. Macri pointed out that the economy would experience between four and five months of recession, but that there isn't any possibility that the country would default again.

Brazil in deficit. The Central Bank of Brazil recorded a current account deficit of USD 717 million in August and in 12 months accumulated a negative balance equivalent to 0.80% of GDP. The market projected a deficit of USD 1.20 billion and foreign direct investment in Argentina amounted to USD 10.60 billion.

Mexico's inflation. According to the National Statistics Institute (INEGI), year-to-year inflation in Mexico grew less than expected in the first half of September. The national consumer price index registered a bimonthly increase of 0.22%, to reach a year-to-year rate of 4.88%, done 4.98% than expected.

Insufficient efforts. The European Union has failed to defend its companies in Iran from the global reach of the U.S. financial system and Donald Trump's sanctions. EU-Iranian trade this year is running at EUR 2,000 million a month, but this is expected to fall as big European companies pull out and their diminishing oil exports because of the sanctions.

New alliances. Instead, during this week Europe has been engaging with Russia and China to ensure Tehran gets some benefits from its oil sales, assuring Iranian President Hassan Rouhani has a reason to keep to the 2015 nuclear accord. Rouhani is facing pressures in the U.N. General Assembly, because of internal needs to abandon the 2015 deal as its economic benefits diminish.

POLITICAL TIPS

Sanctioned. The Office of Foreign Assets Control (OFAC) sanctioned six top figures of the Venezuelan government, including four government officials, the First Lady, Cilia Flores, the Defense Minister, Vladimir Padrino López, Vice-President Delcy Rodríguez, and the Communications and Information Minister, Jorge Rodríguez.

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Trump underscores the crisis. The US President, Donald Trump, at the opening of the 73rd UN General Assembly, referred to Venezuela crisis as a “*human tragedy*” and asked the member states to advocate for the restoration of democracy in Venezuela.

Migration to Ecuador. Ecuador’s Lenín Moreno, in turn, took the opportunity to point out that Ecuador is “*receiving 6 thousand Venezuelans every day.*” He also highlighted that “*more than 50 thousand vaccines for Venezuelan children have been delivered and more than 1 million Venezuelans have been checked up in the biggest diaspora of our continent.*”

Brazil takes the floor. Michel Temer, president of Brazil, also referred to the Venezuelan crisis. Temer explained the measures taken by his administration to palliate the mass arrival of Venezuelans in Brazilian territory and said that “*Brazil has received dozens of thousands of Venezuelan refugees.*”

Strong and no so strong options. After the opening ceremony, Trump explained on a press conference, about the actions the United States will take regarding the Venezuelan crisis, “*all options are on the table, the strong ones and less than strong ones, and you know what I mean by strong ones*”, referring to a possible military intervention.

Funds for refugees. The World Food Programme (WFP) informed that they need USD 22 million as a supplement to take care of Venezuelans coming to Colombia. Up until now, the WFP has provided emergency food assistance for more than 60,000 Venezuelans in the departments at the border between both countries.

Political fence. Iván Duque, president of Colombia, announced that his government will advocate for raising a diplomatic fence to put an end to dictatorship in Venezuela. Duque assured that his speech “*is not warmongering*” and urged the international community to “*report and apply all sanctions that may be necessary.*”

Colombia defends Borges. During his statement, Iván Duque also rejected the extradition petition submitted by the Venezuelan government against Julio Borges, former president of the National Assembly in Venezuela, who has been accused of being involved in the failed murder attempt against president Nicolás Maduro. “*We aren’t going to extradite a victim of political persecution,*” Duque assured.

Chile’s “murder attempt”. Jorge Rodríguez, Venezuelan communications and information minister, asked Chile to offer an explanation in relation to the statements of one of the individuals allegedly involved in the failed murder attempt against president Nicolás Maduro, involving Chilean embassy in Venezuela.

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And Mexico and Colombia. Venezuelan Foreign Affairs Ministry spoke out about the accusations of the Venezuelan Communications Minister in the sense that these two countries would have *“allegedly collaborated or would have been willing to collaborate”* with the individuals involved in the failed murder attempt.

Chile’s response. Chilean Foreign Minister, Roberto Ampuero, described as *“unacceptable and irresponsible”* the statements of the government of Venezuela. Ampuero stated that the Executive rejects the *“slandorous accusations of the government of Venezuela, because “they are intended to distract from the extremely serious humanitarian crisis faced by Venezuela.”*

Protests for October. The Frente Amplio Venezuela Libre (opposition) and leaders from unions and professional guilds convened a national protest at the Aula Magna of the Universidad Central de Venezuela (UCV) for next October 5. The call is addressed to all labor inspectorates and is intended to fight for *“respect for wages and collective agreements.”*

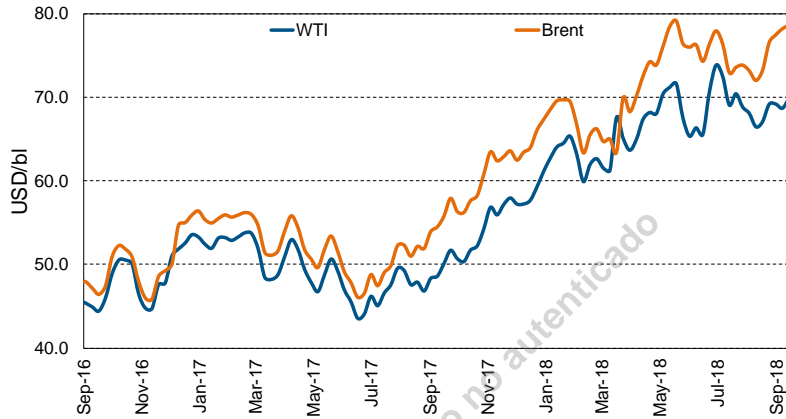
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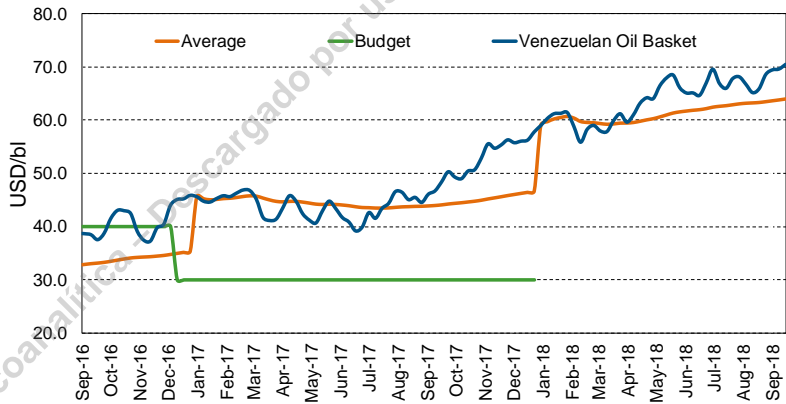
ECONOMIC INDICATORS

**Oil Prices
(WTI and Brent)**



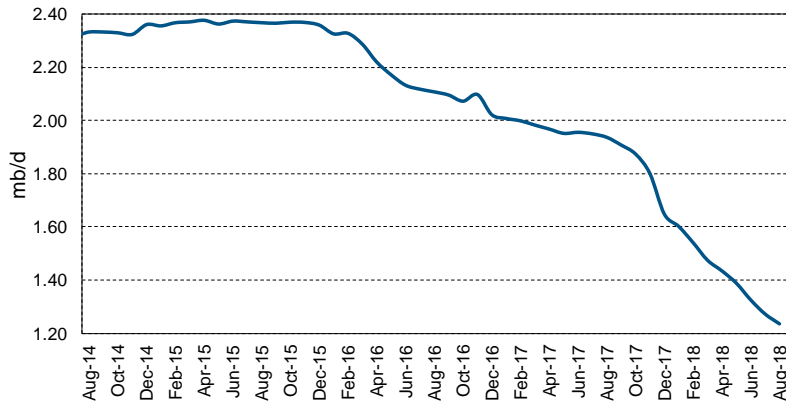
Sources: Menpet and Ecoanalítica

**Oil Price
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production
(Secondary sources)**

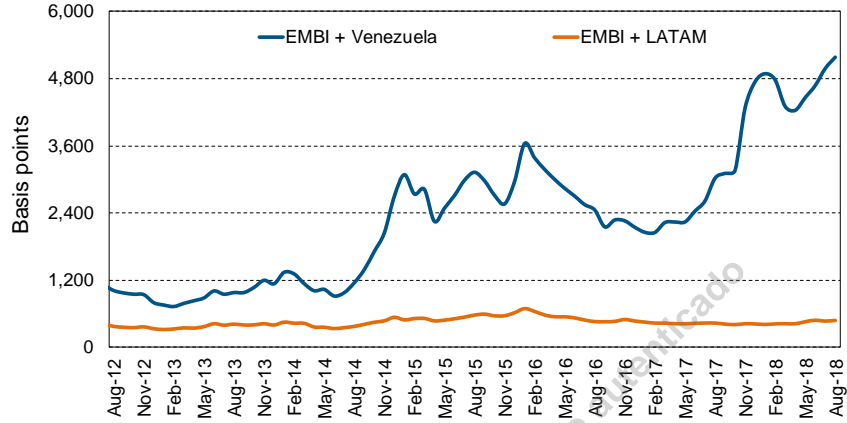


Sources: OPEC and Ecoanalítica

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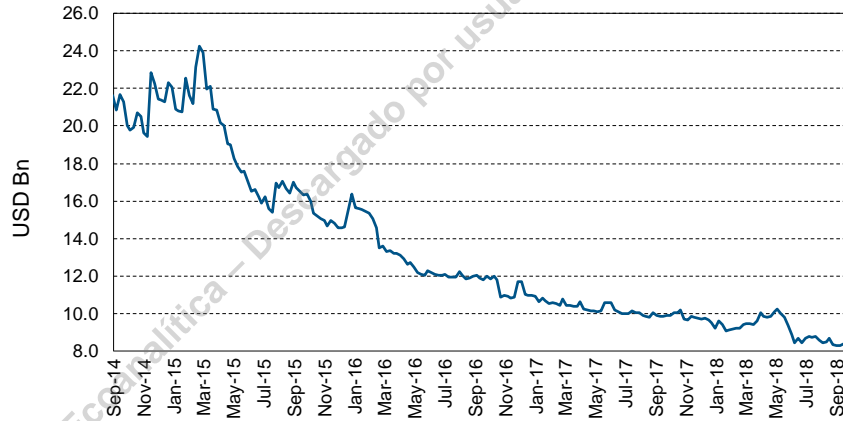
ECONOMIC INDICATORS

EMBI



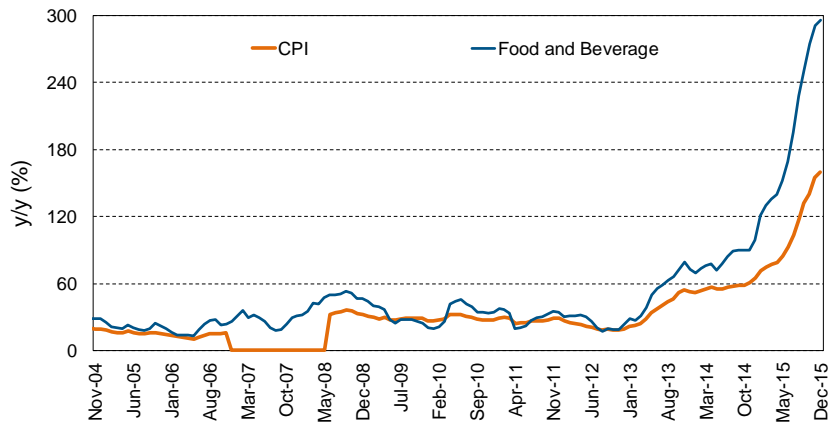
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



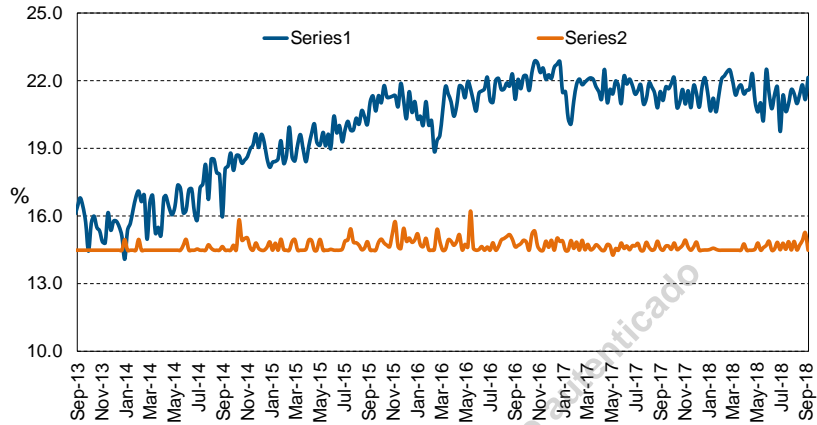
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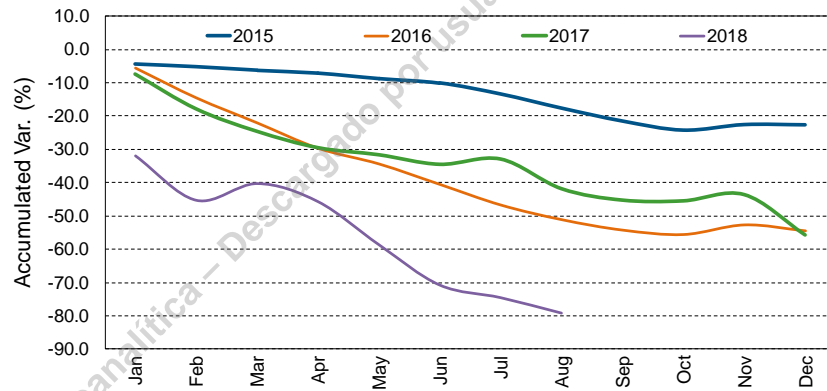
ECONOMIC INDICATORS

**Interest Rate
Six major banks)**



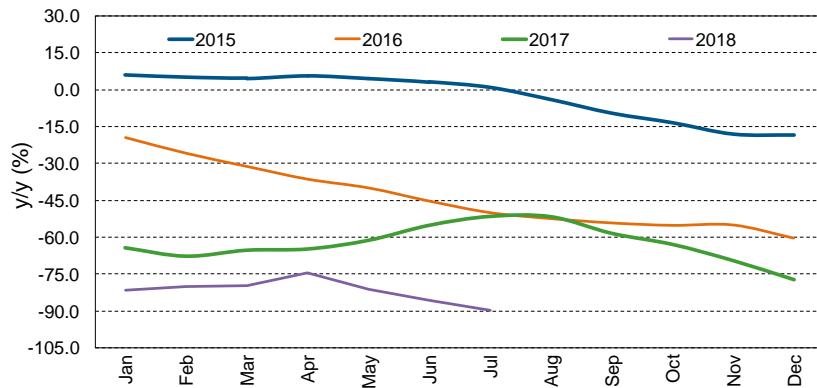
Sources: BCV and Ecoanalítica

**M2 Expansion
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio
(Real)**



Sources: SUDEBAN and Ecoanalítica

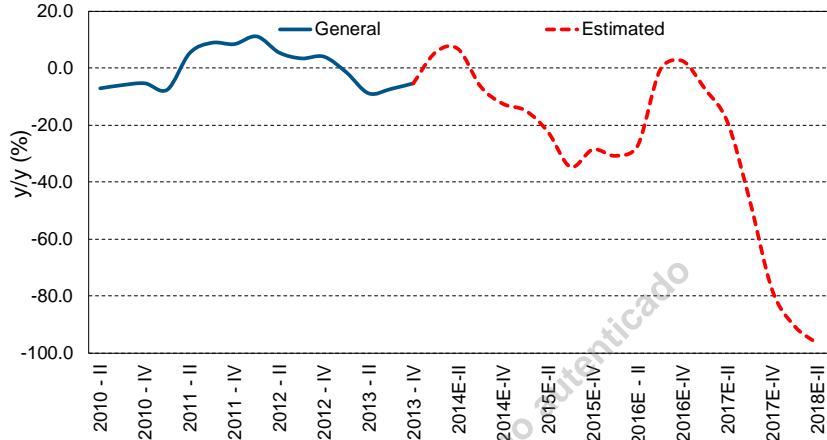
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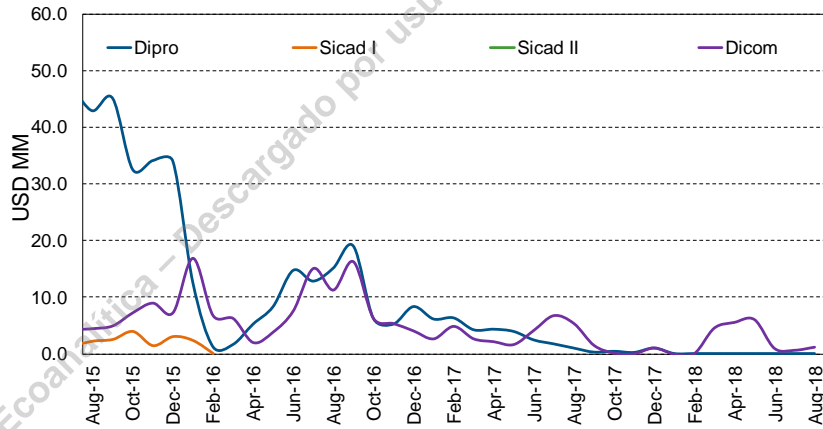
ECONOMIC INDICATORS

Real Wage Index



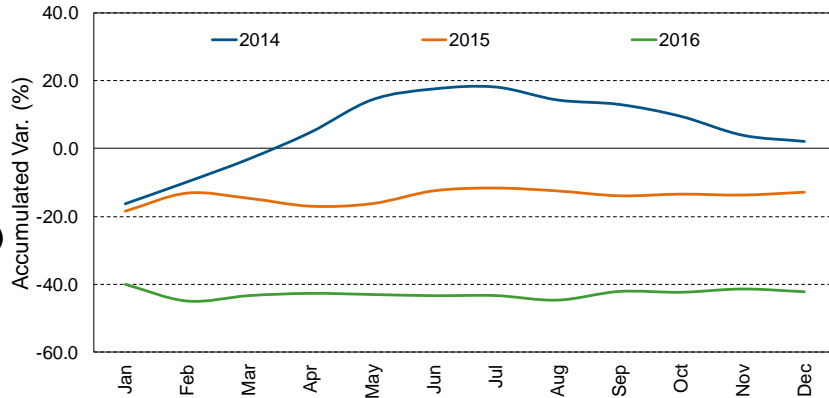
Sources: BCV and Ecoanalítica

Disbursements to the Private Sector (Daily Average)



Source: Ecoanalítica

Primary Spending NTO (Real - Central Government)



Sources: ONT and Ecoanalítica

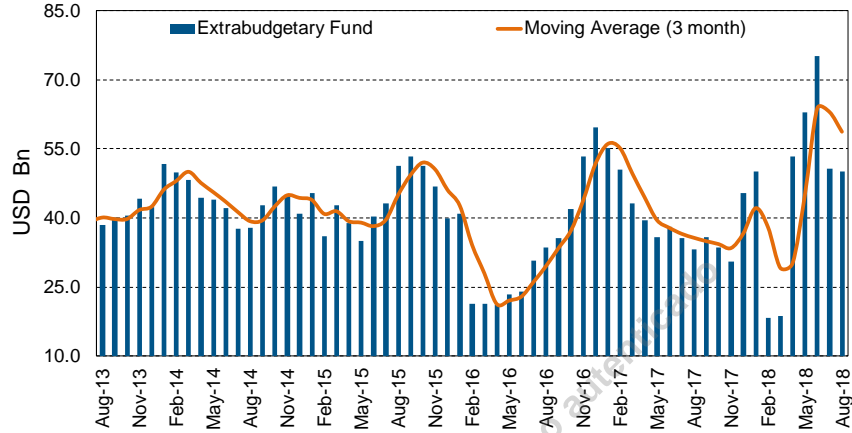
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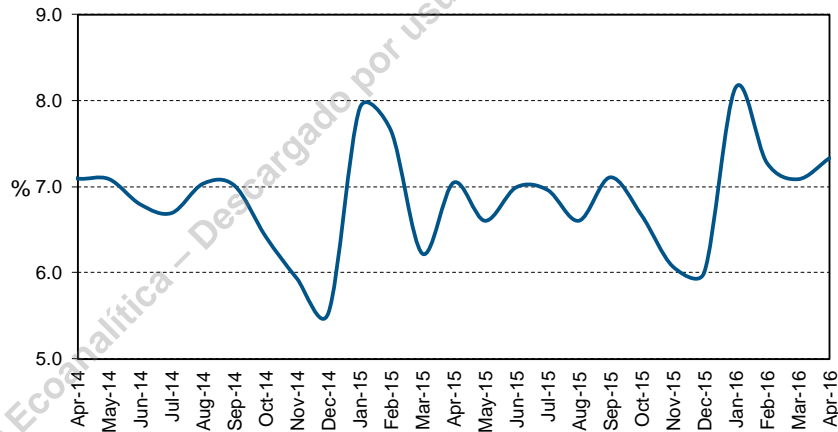
ECONOMIC INDICATORS

State Extrabudgetary Resources



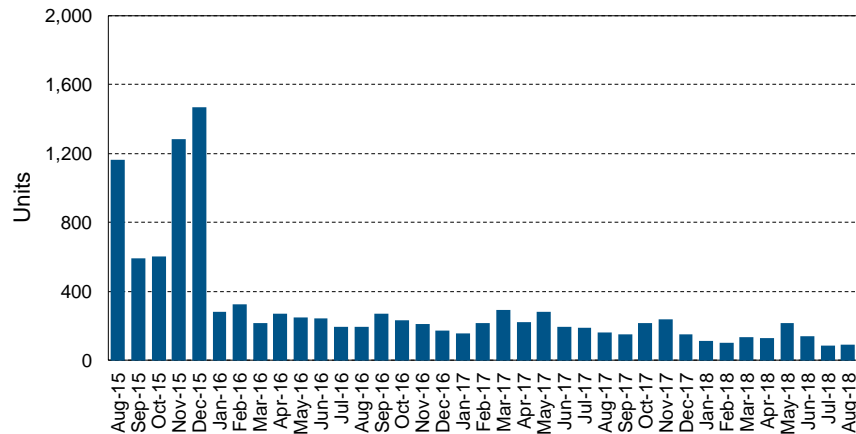
Source: Ecoanalítica

Unemployment Rate



Sources: INE and Ecoanalítica

Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

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