



Weekly Report

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Pdvsa's 2017
Everything in excess is harmful

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Finally, after a long wait, the conditions of the Petroleos de Venezuela (Pdvsa) bond issue were published, and, surprisingly enough, the Intermediate, Consolidated and Condensate Financial Report of the Company as of June 30, 2010 was also released. In this report we present a brief analysis of the issue, the 2011/2013 bond swap, its impact on Pdvsa books and the possible implications for the economy. The results? Always the same old story.

Characteristics of the Issue

The bond is due on November 2, 2017, and the issue has a nominal value of US\$3.0 billion. Bids are to be submitted at an exchange rate of VEF 4.3/US\$ and for US\$3,000 or more, with increments equal to a multiple of that minimum, i.e. US\$6,000, US\$9,000, US\$12,000, etc. In addition, the papers will be initially offered at 100%, or par, at 8.5%, payable every six months on May 2nd and November 2nd each year until maturity, starting on May 2, 2011.



The paper will be issued following the Eurobond format and will be governed by Regulation S of the Securities Act and Rule 144th of the same law. However, it isn't and won't be registered under that law in the United States. Euroclear, Clearstream and DTC will act as custodians of the bond.

What will be the yield of the bond?

One of the most outstanding aspects of this bond is that it is different from its predecessors: while it is a single paper due in 2017, this debt will be amortized in three equal parts (November 2, 2015; November 2, 2016; and November 2, 2017). This is substantially relevant because when the bond is to be allocated a possible value on the secondary market, is cannot be treated as if it was equal to the already existing Pdvsa bond that is due in 2017.

Yield is expected to range between 16.5% and 18.5%, with the bond being traded within a 75.8% and 70.2% band, at an implicit exchange rate between VEF6.0-6.5/US\$. However, we don't expect very attractive initial prices; therefore we recommend waiting, if possible, for the price to recover up to the levels mentioned above, once the bond is settled and begins to trade on the secondary market.

Official exchange rate (ER)	4.3	
Commission	1%	
Nominal price	100%	
Yield (%)	Market price	Implicit ER (VEB/US\$)
16.5	72.6	6.0
17.0	71.2	6.1
17.5	69.9	6.2
18.0	68.6	6.3
18.5	67.3	6.5

Source: Ecoanalítica

We recommend swapping Pdvsa 2011 for the new Pdvsa 2013 bonds

We recommend Pdvsa's offer to swap bond maturing in 2011 for bond due in 2013, which, in spite of its later maturity date, looks very attractive thanks to its characteristics: Pdvsa 2011 bond is zero coupon vs. 8.0% for 2013, payable every six months; for each \$100 tendered before Oct. 28, holders will receive \$112.5 worth of the new issue (2013); those tendered in the two weeks ending Nov. 12 will receive \$109.5 of the new issue.

The 2013 bond is registered under international law vs. Local 2011

An additional significant advantaged of 2013 bond with respect to 2011 is that this latter was registered under local law only, whereas the new issue



will be registered under international law; therefore, since its default risk is lower, the 2013 bond will be traded at higher relative prices on the international market.

This swap offer has been perceived as positive by the market, because yield required to maturity of the 2011 issue varied downward, from a yield over 12% over the past three months to just 6.4% after the announcement of swap conditions. This leads us to think that most holders will take the swap, which will reduce liquidity of Pdvsa 2011 and will cut its price in the short term (in the middle term, its price will retake an upward trend, until reaching 100% in July 2011, on its maturity date). This is another reason to take the swap.

Financial Analysis

If you are a holder of Pdvsa 2011 bonds, you should analyze from the financial perspective the possible actions at your disposal.*

- Selling the bond now and obtaining US\$947 for each US\$1,000 is not a bad option considering that currently the price of this bond has reached its record high.
- Keeping the bond until maturity on July 11, 2011, and obtaining US\$1,000 for each US\$1,000, which implies a current value of US\$972.
- Swapping the Pdvsa 2011 bond for the new Pdvsa 2013 and taking one of the following actions later:
 - Selling the bond subsequently to its settlement on November 17 to obtain about US\$846 for each US\$1,000, which implies getting US\$952 for each US\$1,000 of Pdvsa 2011, which doesn't represent a significant advantage compared to just sell the Pdvsa's 2011 and it implies bigger uncertainty.
 - Selling the Pdvsa 2013 bond any time before maturity, and collect some 8.5% every six months for each US\$1,000.
 - Keeping the Pdvsa 2013 bond until maturity to obtain US\$1,000 for each US\$1,000, which implies getting US\$1.112 for each US\$1,000 of Pdvsa 2011 and collecting all its coupons? This

* To calculate the current value we used the estimated yield of each bond as interest rate and the projected FED's funds rate as opportunity cost.



would have a current value of US\$1.030 for each US\$1,000 of Pdvsa 2011.

With respect to our recommendation to take the swap, it's worth pointing out that this is an attractive offer, unless cash flow is required. However, we don't expect Pdvsa to have any problem to pay the bond to those investors who decide to keep their papers.

Why is Pdvsa doing this?

This year, we at **Ecoanalítica**, have referred on repeated occasions to the situation of the *new* Pdvsa. This is a less and less productive company that has produced lower foreign currency income for the country (due to both operational problems and the drop in oil prices), which is increasingly diverted from its medullar functions, diversifies even more its markets (under the political dogma instead of the financial one), and which has seen its debt increase for the third year in a row.

Within this context, it looks sensible that a company of that size resorts to international markets to solve what could be seen as a little inconvenience. However, Pdvsa is not a common state-run oil company and the causes will be analyzed below.

How much does the debt amount to?

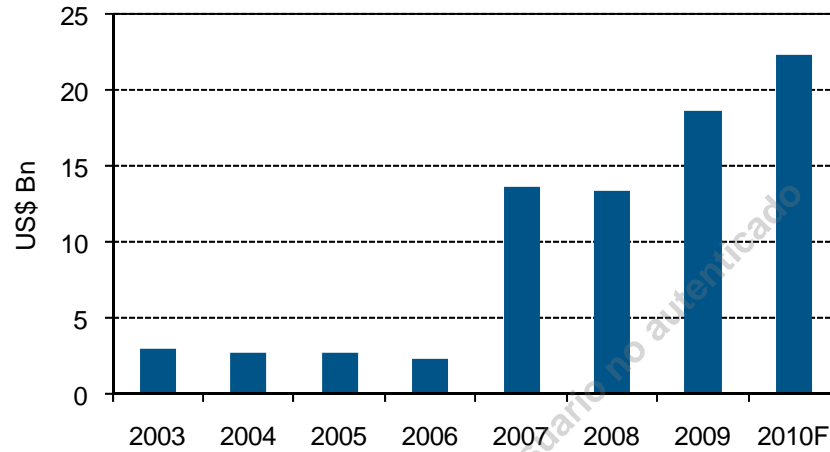
According to the recently published report on Pdvsa's Intermediate, Consolidated and Condensate Financial Statements as of June 30, 2010, financial debt of the country's major industry amounted to US\$10.27 billion, for a 3.6% nominal increase with respect to the closing of 2009 and 34.7% in y/y terms. Taking into account the US\$3.0 billion of the next issue and assuming that this amount will not increase, Pdvsa's debt for end-2010 will be about US\$22.3 billion, or an increase of 19.7% in comparison to the US\$18.6 billion at yearend 2009.

Now, if we analyze the increase in Pdvsa financial debt after 2002 oil strike, we found that in the 2003-2006 period (when exchange control was set), the average debt was only US\$2.675 billion, whereas in 2007-2010 (exchange control consolidation and its subsequent distortions), the average debt amounts to US\$16.98 billion, that is, 6 times the amount of the period following the oil strike.





Pdvsa's Debt



Sources: Pdvsa y Ecoanalítica

Easier said...

The above leads us to put forward the following premises:

- Pdvsa, as the country's main source of foreign currency, is a keystone for any exchange policy decision.
- Therefore, after 2002 nationalization, Pdvsa became the main engine for President Chavez popularity. That is, along with the Republic, it became the main foreign currency provider for the exchange market (bond issues + injections to the extinct swap market), on the one hand, and disbursements for social development (missions + Fonden) and food supply at low prices through Pdval network.

...than done

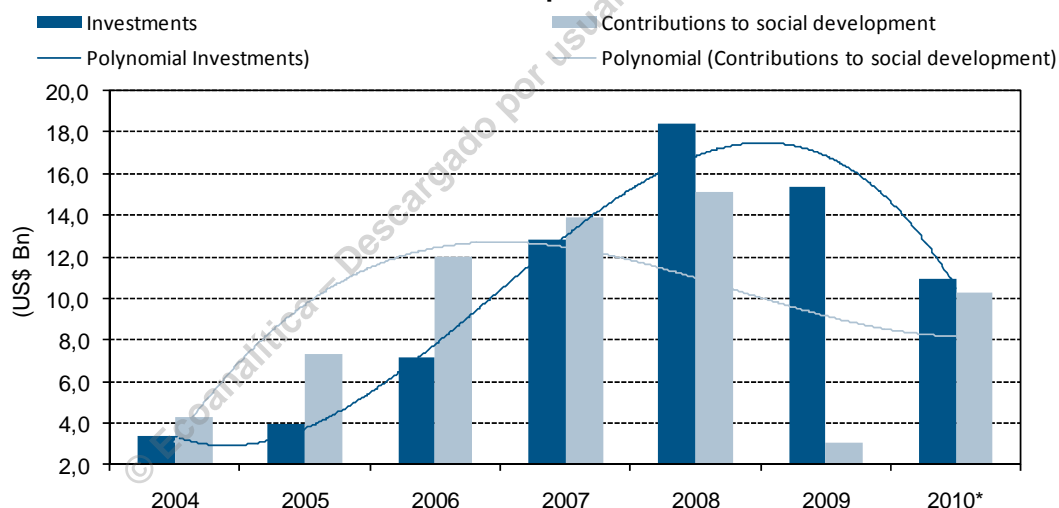
In this regard, while Pdvsa justifies its debt issues by claiming that they are aimed at "*financing investment projects, including the country's social and integral development,*" as stated in the prospect accompanying the issue, at **Ecoanalítica**, we are clear that, even though the state-run company has earmarked a large part of its available revenues for these projects, the purpose of this issue isn't basically to finance these projects, but to have more funds available for investment, because, as we have mentioned in previous reports, if Pdvsa doesn't increase its production levels, the whole (political + economic) viability of President Chavez project will be seriously jeopardized in 2012, much more if oil prices don't surpass the US\$80/bbl. ceiling.





Otherwise, Pdvsa would be making a huge mistake: earmark the largest part of its resources for investment in social development rather than structuring a more effective strategy that prioritizes investment in exploration and production. Results for the first half of 2010 already showed a first warning sign, because investment in social development again surpassed disbursements for operative investment. Considering that recent years' trend has reverted, we at **Ecoanalítica** commented that this was extremely positive for the country. Now with these results for the first half of the year, we have no option but expect that, in fact, the bond resources are used for investment and maintenance expenditure.

PDVSA's Investments Vs. PDVSA's Contributions to social development



Sources: Pdvsa and Ecoanalítica
* 2010 ammount was annualized

...than done

In his visit to Moscow, president Chávez announced the sale of Pdvsa's shares in the German Ruhr Oel refining system to Russia's Rosneft, for US\$1.6 billion. However, analysts point out that the refinery is worth a minimum of US\$7.0 or US\$8.0 billion. This system contributed about 230,000 b/d to Pdvsa's international refining circuit, that is, 93.5% of oil and byproduct exports of Pdvsa to the European market at end-2009.

The Administration claimed that the proceedings from the sale will be used to expand oil processing capacity in Venezuela. We, at **Ecoanalítica**, believe that it's worth highlighting that this doesn't make much sense, because those refineries assured Pdvsa the advantage of placing an attractive share of oil by products on a market that produces more



exchange revenues, such as the Europe market. Furthermore, the disincorporation of these assets from the international refining system to include domestic ones is not instantaneous; that is, the present refining system should be expanded or new refineries should be built, and these would take at least one year. So, this will also be something to consider as an investor, if the risk of a default on the debt of Pdvsa increases.

However, oil experts point out that these refineries were not fed with Venezuelan crude, therefore it was necessary to increase oil purchase from Russia. It's also worth stressing the need to expand the local refining park, given the domestic consumption increase over recent years. Additionally, growth prospects of global demand for byproducts are positive for the upcoming years. In any case, the recommendation is still the same: it's necessary to invest in the business medullar areas.

We are living in a dilemma

At *Ecoanalítica*, we are of the opinion that this bond issue by Pdvsa has ambiguous consequences for Venezuelans. On the one hand, it is a sure way to buy foreign currency within an exchange control context, through a legal and accessible mechanism, even though the implicit exchange rate is increasingly farther from the official one, even more considering that the national economy has to be reactivated. On the other, Pdvsa is more and more committed both to its business and the Administration.

The problem is that resources will indeed be applied to reactivate the economy through Pdvsa and the local productive sector as well as ordinary citizens. The question is: will Pdvsa or the Venezuelan citizens be ready for this?





Economic Tips

Marginal reserve requirement was reduced from 23% to 20%. The Central Bank decided to lower the marginal legal fit to increase liquidity and facilitate the sale of PDVSA bonds 2017, as published in the Official Gazette No. 39,533. With the decrease of the reserve will be released around VEF 7,100 million.

Cadivi authorizations for the first half. The Foreign Exchange Administration Commission (Cadivi) published figures for the first half of 2010, whose total authorized amount recorded U.S. \$ 14,320.4 million, representing an increase of 11.0% compared to what is allowed in the same period in 2009. It is noteworthy that imports through ALADI Agreement decreased significantly, the main reason for this drop is lower imports from Colombia (by restrictions imposed by Cadivi).

Amount authorized 2010 (US\$ million)			
	Jan-Sep 2009	Jan-Sep 2010	Var(%)
Imports	10,620	15,003	41.3%
Students	208	283	36.5%
Special cases	47	107	128.9%
Airlines	588	961	63.4%
Ext Private Debt	59	14	-76.8%
Consulates and Embassies	75	44	-41.4%
Insurance and Reinsurance	110	65	-41.4%
Foreign Investment	541	29	-94.7%
ALADI Convention	5,141	3,069	-40.3%
Retirees and Pensioners	40	49	22.5%
Remittances to family	426	538	26.1%
Credit Cards	2,540	850	-66.5%
Cash for travel	227	264	-8.5%
Services	7	2	-78.3%
Telecommunications	40	47	15.6%
Total	20,667	21,322	3.2%

Sources: CADIVI and Ecoanalítica

Authorizations for imports by economic sector ... emphasizes that the participation of foreign currency granted to food decreased, going from 25.8% to 20.1%. For its



part, the health sector has cleared 17.6% of foreign exchange for regular imports.

Amount authorized (US\$ million)			
	Jan-Sep 2009	Jan-Sep 2010	Var(%)
Food	2,438	3,075	26.1%
Commerce	1,744	2,752	57.8%
Health	1,577	1,984	25.8%
Automotive	1,202	1,730	43.8%
Metallurgist	661	980	48.4%
Chemistry	521	836	60.4%
Machinery and Equipment	223	759	241.3%
Services	225	465	106.9%
Telecommunications	458	242	-47.2%
Rubber and Plastic	284	310	9.0%
Computer	84	273	224.1%
Construction	197	357	81.4%
Electronic	114	139	22.4%
Grafic	120	125	3.7%
Electrical appliance	104	83	-20.4%
Textile	133	217	63.2%
Non Metallic Minerals	143	233	63.4%
Electric	108	111	2.2%
Paper - Cardboard - Wood	126	153	21.5%
Comunications - Press	7	10	43.5%
Books and School Supplies	46	70	53.2%
Science and Tech	29	16	-45.8%
Vet	61	47	-22.7%
Tobacco and Alcoholic Drinks	17	38	120.1%
Total	10,620	15,003	41.3%

Sources: CADIVI and Ecoanalítica

While the settlement ... In reviewing the performance of foreign exchange settlements during the first half of 2010, we note that fell 2.2% over the same period last year. Until the end of first half private importers were nearly the same amount of foreign exchange in the same period of 2009.





Amount disbursed 2010 (US\$MM)			
	Jan-Sep 2009	Jan-Sep 2010	Var(%)
Imports	14,792	10,607	39.5%
Students	269	180	49.9%
Special cases	105	52	103.1%
Airlines	950	553	71.7%
Ext Private Debt	11	29	-63.3%
Consulates and Embassies	46	75	-38.9%
Insurance and Reinsurance	64	119	-46.0%
Foreign Investment	31	516	-93.9%
ALADI Convention	3,069	5,141	-40.3%
Retirees and Pensioners	48	38	25.9%
Remittances to family	528	414	27.3%
Credit Cards	861	2,637	-67.3%
Cash for travel	182	221	-17.6%
Services	1	8	-94.0%
Telecommunications	35	38	-7.4%
Total	20,990	20,627	1.8%

Sources: CADIVI and Ecoanalítica

And the assessments by economic sector ... As in the case of licenses, the foreign currency to food sector decreased its share in total imports and regular health significantly increased their participation.





Amount disbursed (US\$MM)			
	Jan-Sep 2009	Jan-Sep 2010	Var%
Food	2476	3080	24.4%
Commerce	1713	2867	67.4%
Health	1478	1778	20.3%
Automotive	1239	1789	44.4%
Metallurgist	666	979	46.9%
Chemistry	535	975	82.1%
Machinery and Equipment	219	755	245.0%
Services	246	383	55.6%
Telecommunications	419	126	-69.9%
Rubber and Plastic	251	358	42.5%
Computer	117	244	108.7%
Construction	255	304	19.1%
Electronic	112	135	20.9%
Grafic	101	112	11.3%
Electrical appliance	97	87	-9.7%
Textile	140	237	69.0%
Non Metallic Minerals	168	217	29.1%
Electric	105	96	-8.8%
Paper - Cardboard - Wood	119	95	-19.8%
Comunications - Press	8	10	29.1%
Books and School Supplies	43	54	24.8%
Science and Tech	27	21	-21.9%
Vet	57	48	-16.4%
Tobacco and Alcoholic Drinks	17	44	157.4%
Total	10,607	14,792	39.5%

Sources: CADIVI and Ecoanalítica

Unemployment down to 8.4% in September. According to official figures from the National Statistics Institute (INE) during the month of September, the unemployment rate was 8.4%, 0.1 percentage points below the measure of unemployment recorded in September 2009 and 1,2 percentage points below the month of August this year, when I get to 9.6%, the highest recorded this year.

Public spending in 2011 will be similar to 2010 in real terms. Vice President Elías Jaua announced that the National Budget Law for 2011 plans spending for VEF 204.2 billion, far lower than VEF 250.0 billion requested by some official entities for 2011,



and 28% higher than spending planned for 2010, which was established at VEF 159.4 billion. We should remember that these amounts only represent a base level of total spending, because the National Assembly (AN) approves supplementary appropriations throughout the year, which increase total spending; for instance, supplementary appropriations totaling VEF 32.2 billion were approved from January to August. Taking into account the inflationary trend, we can infer that, in real terms, 2011 public spending will be very similar to 2010, assuming that supplementary appropriations register the same nominal increase as planned spending.

2011 Debt Law reflects a 53.2% increase. Elías Jaua also informed that 2011 Debt Law provides for a maximum fiscal debt of VEF 54.0 billion, which represents an increase in real term from the maximum approved for this year of VEF 35.2 billion. This nominal increase of 53.4% far exceeds inflationary expectations for 2011, which were set at around 30%. Given the spending level planned in 2011 Budget Law of VEF 204.2 billion, borrowing will finance 26.4% of this spending, that is, the largest amount financed through debt since 2004, when it reached 36.8%, whereas this year's proportion was at 22%.

Seniat's collection drops 3.3% in real terms during the first nine months of the year. Seniat collected a total of VEF 8.95 billion in September, for a cumulative collected amount of VEF 73.79 billion for the period from January to September, up 24.3% from collection in the same period in 2009. In real terms, this implies a drop of 3.3%, because the level of average prices during this period was 29.7% higher than that of the same period last year.

Seniat collection (VEB million)	Jan-Aug 2009	Jan-Aug 2010	Variation (%)	Real Var (%)
Total Collection	59.385	73.789	24,3	-4,2
Income tax	20.214	21.563	6,7	-17,8
Value added tax	23.153	32.152	38,9	7,0
Customs revenue	11.410	13.902	21,8	-6,1
Other taxes	4.608	6.171	33,9	3,2

Sources: Seniat y Ecoanalítica

Public Stock Exchange will be ready this year. The chairman of the AN Finance Commission, Ricardo Sanguino, publicly commented that the provisions that will rule financing of the Public Stock Exchange will be completed this year, because these and the Banking Activity Law are legislative priorities for the last quarter of 2010. It's expected for public companies to issue debt through the Public Stock Exchange, the



new Banking Activity Law to pave the way for banks to finance social property, and that relations of banks with insurance firms and brokerage houses are prohibited.

The number of employers drops. According to figures of the National Statistic Institute (INE), the number of employers has dropped by 20.3% between August 1999 and August 2010, from 496,867 to 395,795. This not only affects the capacity to create new jobs, but also provides employers with greater market power in wage negotiations, with a subsequent regressive effect on rent distribution.

Household work would be recognized in the new Organic Labor Law. The National Assembly has plans for the new Organic Labor Law (LOT) to recognize household work and include it in the social security system. According to Deputy Marelis Pérez Marcano, the new LOT “is intended to favor human rights of working women concerning their participation in both production and service area. This would guarantee gender equality in the Venezuelan labor system.” Let’s remember that the more polemic provision included in the new LOT is the reduction of weekly work hours to a maximum of 36 hours.

Interest rate. The lending rate for the first week in October was at 18.0%, down by 12 base points compared to the previous week. Time deposits and savings rates were steady at 15.4% and 12.6%, respectively.

International reserves. International reserves increased by 1% going from US\$29,369 million during the first week in October to US\$29,673 million during the second week in October. Compared to the same period last year, international reserves dropped by 11.4%.

Monetary liquidity. Monetary liquidity for the fifth week in September down up by 0.5% compared to the previous week settling at VEF 260.87 billion, up by 10.7% year to date and 14.5% in the last 12-months.

Sitme figures. To date, US\$3,065 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$33 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$172.3 million, US\$70.5 million less than last week when braided US\$242.8 million. This is partially explained by a holly day (October, 12) and by the anticipation of this week Pdvsa’s bond issue.





Oil Tips

Areas of Anzoátegui affected by oil spill. Several small oil spills have taken place off the coast of Puerto Piritu, affecting the fishing activities in the area. Even though the spills are not significant in size, they have been identified in several places. According to statements issued by Carlos Garcia, one of the area's residents, these spills come from vessels anchored at the Cryogenic plant of Jose, and these problems occurs every time these vessels are up for maintenance. In light of that, resident fishermen request the oil industry to take measures to keep the substances from contaminating the state's west coast.

Pdvsa asset sales questioned. 27 years ago, Venezuela acquired shares in the German refining system of Ruhr Oel. President Chavez, during his tour of Moscow, announced the sale of said shares to the Russian oil company Rosneft. However, Calderon Berti, former minister of Energy and Mines said when the shares were purchased: *"the sale of such assets for US\$1.6 billion was a bargain the Russian Rosneft could not have rejected."* The former minister also said that refinery could not be built for less than US\$7 or 8 billion, so *"they are giving away Venezuela's participation."*

Including a petrochemical plant. The sale of Pdvsa's shares to the Russian oil company Rosneft includes the petrochemical plant DHC Solvent Chemie GmbH located in Germany, an affiliate company of Ruhr Oel. The purchase-sale agreement also established petrochemical terminals and facilities. Eulogio del Pino, Pdvsa's vice president of exploration and production, said the operation would "not affect (Venezuelan oil shipments to Europe) because these refineries work mainly with Russian crude oil" and added that the sale money would be used to "diversify investments in other areas."

200 years of guaranteed oil shipments. Alexandr Lukashenko, president of Belarus, took advantage of President Chavez's visit to thank him for his support in the "tough times his nation lives." Lukashenko said "if it weren't for Venezuela's help this year, we would have had a very rough time, they basically saved us." In turn, Chavez promised he would give the former soviet nation oil for the next 200 years. He promised refineries, the base of Belarus' economy, would not suffer from shortage for two centuries.





Tests to ship Pdvsa's crude oil started. Vice prime minister of Belarus Vladimir Semashko said that both Belarus and Ukraine would reverse the flow of crude oil in part of Druzhba's oil pipeline (which reaches Europe). With this, the Venezuelan oil will be able to come in from Odesa, Black Sea shore, to Belarus. According to analysts, this system modification will reduce the volumes of crude to several Eastern European nations.

BP assets sold for US\$1.8 billion. The joint venture in Russia of the British oil company BP, TNK-BP, is to purchase BP's assets in Venezuela and Vietnam for an amount of US\$1.8 billion. According to Fridman, executive director of the group's operation, *"the acquisitions in Venezuela and Vietnam are a milestone in the strategic expansion of TNK-BP in the global energetic market."*

Pdvsa out of the plan with Brazil. Petroleos de Venezuela was excluded from the project to build the refinery Abreu e Lima at Pernambuco, according to versions published in the newspaper O Estado de Sao Paulo. The Brazilian press says that since the signing of the partnership agreement between Pdvsa and Petrobras, the Venezuelan company has not paid. The contract contemplated nearly 15 projects in the field of energy, out of which the only one that was carried out was the construction of the refinery.

Ramirez: "a weak USD affects us." The minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, in light of OPEC's decision to maintain its current production quotas unchanged for all eleven member countries, said the Republic was expecting price levels between US\$90 and 100 per barrel for 2011, acknowledging that a weak USD "affects us a great deal," although he assured that *"nothing different is foreseen in the short term."*

New treaty with Belarus. The President of Venezuela, Hugo Chavez, dealt a series of projects with Belarus during his recent international tour. The treaty established that Venezuela shall supply Belarus with 30 million tons of oil over three years since the beginning of 2011. According to numbers published by the news agency Reuters, Venezuela currently sells crude oil to Belarus for a price of 647 US\$/Ton, so the new agreement is valued at approximately US\$19.4 billion.

Agreement signed with Iran as well. Besides the treaty signed with Belarus, President Chavez reached a new agreement with Iran to create a joint company for oil transportation and construction of petrochemical stations. This would allow Venezuela to make exports to Asia and Europe for 500,000 barrels of crude oil. Venezuela's participation in the exploitation of the Iranian gas deposit "South Pars," considered to be the world's largest natural gas deposit, will also be discussed, and President Chavez committed to selling gasoline to Iran, despite the sanctions provided by the



United Nations (UN) already imposed in Teheran due to suspicions of a nuclear program. The trade volume between the two nations currently exceeds the US\$5 billion.

Yet another accident. Since last week, there have been warnings of a leak of toxic substances in Petroanzoategui, in the Jose refinery. However, on Monday, October 18, the situation went out of control and according to Eudis Girot, executive of the Single Federation of Oil Workers (Futpv), the leak was not taken care of on time so a contaminating atmosphere was created all over the plant, forcing them to vacate 370 workers. The leak has already been contained, but workers will not be able to get back to work until the reason for the leak is determined.

International oil baskets. At the close of the New York market last Thursday, October 21, the WTI was at US\$XX/bl, showing a XX% increase compared to the US\$XX/bl of the previous Thursday. The Brent increased by XX% to reach US\$XX/bl, compared to US\$XX/bl of Thursday, October 14th.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$74.98/bl on Friday, October 15th, up by US\$0.46 or 0.6% from the US\$74.5/bl registered the previous week. Meanwhile, the basket's annual average is at US\$69.7/bl.

Business Sector Tips

Government defines list of sectors to be expropriated. Vice president Elias Jaua said recently that the National Administration had a list of sectors to be nationalized and turned into social properties, in order to dismantle oligopolies, monopolies and large estates, and that way control the production and distribution media which, in their opinion, condition a democratic society's will to enjoy its right to eat and get dressed.

What's the cost of the banking crisis? As of October, Fogade has disbursed VEF 2.5 billion (approximately US\$962 million at the official exchange rate) to clients of the following banks: Federal, Canarias, Banpro, Baninvest, Sol, Real and Inverunion. However, not all accountholders have claimed their insurance payment. Should all accountholders do so, Fogade's bill would increase up to VEF 3.27 billion.





Fogade can bear it. David Alestre, president of Fogade, assured Fogade has not needed any help to pay the insured amounts, in fact, he says the Fund's wealth reaches nearly VEF 8 billion and has VEF 2.5 billion liquid in the BCV.

The state acquires assets. Different government entities have begun to acquire assets from the banks in liquidation process. Banco de Venezuela bought the loan portfolio of Banco Federal and Banco Bicentenario bought its office building. Meanwhile, the Ministry of Electricity acquired the office building of Banco Canarias, Banco del Tesoro bought a building that belonged to Federal and the office building of Banco Real will soon be purchased by an official entity.

Fonden to own Russian-Venezuelan Bank. In mid 2009, Russia and Venezuela signed an agreement to create a mixed bank on the base of Eurofinans Mosnarbank. Sector sources indicate that the statutory capital will be of US\$4 billion and that the Russian part would own 51% of the shares, according to a note published by the news agency Ria Novostui, reported AVN. This way, the Russian Federal Antimonopoly Service (FAS) authorized Fonden to acquire 49.9% of the voting shares in the bank Eurofinans Mosnarbank of Moscow, according to the FAS press office. The Russian-Venezuelan institution will provide resources to infrastructure and development projects in areas of interest for both nations, said the Russian Vice minister of Finance, Dimitri Pankin.

Not only lands. The Venezuelan Chamber of Construction considered the housing deficit existing in Venezuela answers not only to the lack of lands, as the Government has said, but to other aspects as well. The supply shortage and the limited financing options in the sector are some of the obstacles. Juan Francisco Jimenez, president of the sector's professional association, said the production of steel bars has contracted by 45%, while the production of cement decreased by 12%. Moreover, according to information provided by the Chamber, currently there is a deficit of 1,900,000 homes and approximately 120,000 new housing solutions are required each year to keep the gap from getting bigger.

Ceramicas Carabobo already nationalized. The minister of Basic Industries and Mining, Jose Khan, said the purchase of Refractarios Orinoco, previously known as Ceramicas Carabobo, was made official for an amount of VEF 40 million. According to the minister, the company will be 100% owned by the Venezuelan State, and will be managed by the Venezuelan Corporation of Guayana. The plant will soon start production with raw materials currently in stock and in approximately two weeks, the first working stage will be activated manufacturing other products used by Guayana's basic industries.



Puerto Cabello deteriorated. The port of Puerto Cabello is still far from working efficiently. Tulio Hidalgo, president of Fedecamaras in the Carabobo State, said the average time to import merchandize is 18 days and 21 days to export. Four years ago, the average time to load and unload merchandize in the country's main port was less than five days. Hidalgo said the administration of Estatal Bolivariana de Puertos (Bolipuertos) has contributed to the deterioration of the facilities and the port machinery. He assured it was necessary to define some policies to allow the improvement of this port's facilities, since the inefficiency in Puerto Cabello translates into shortage of supplies and increased costs.

Why Fertinitro? Last Monday, the minister of Energy and Oil took over the facilities of Fertilizantes Nitrogenados de Venezuela (Fertinitro). According to the minister of Energy and Oil, Rafael Ramirez, the company was producing 1,500,000 tons of fertilizers, out of which most were destined for export, so by nationalizing the company, the supply of this product for national agricultural production is now guaranteed. Nitrogenated fertilizers and the necessary ingredients have been declared as necessary products since 2007, so *"manufacturers, suppliers, distributors, importers and exporters of these fertilizers are obligated to provide them to the domestic market first."*

Agroisleña's contributions. The special scattering plan applied by Agroisleña for the winter cycle contemplated the financing of approximately 330,000 hectares in crops such as rice, corn, sorghum, soy and sunflower in several states of the country, including Guárico, Yaracuy, Portuguesa, Barinas and Bolivar. Most of the financing was oriented to corn production, for which the company (expropriated over a week ago) financed 240,000 hectares of white and yellow corn. Likewise, 40% of the rice production of the Guárico state was sowed with this company's financial help. The plan applied by Agroisleña covered approximately 4,000 producers in several regions of the country.

And what was coming. Among the projections Agroisleña had for the north-summer cycle was offering funding and technical assistance for approximately 10,000 hectares for the production of different cereals. With the expropriation and takeover by the State, it is still unknown whether the same projections will be maintained. Also, Agroisleña took care of over 180,000 small, mid-size and large producers, not only in financing them but also offering technical assistance and supplying products. This way, the company was in charge of providing 60% of the seeds for sowing potatoes and tubers, and nearly 80% of the seeds for vegetable production in Venezuela.

Nutritional State. With the expropriation of Agroisleña, the Government added eight more silos to the public storage network, and manages 45 cereal storage centers out



of the 265 in the country. This adds up to the domain in the market of agricultural supplies it will have once the company's takeover is complete.

EFE resumes activities. The plant of EFE products located in the Chacao municipality in Caracas resumed production yesterday, after a strike that lasted 19 days. The National Labor Inspectorate ordered the company's management to resume activities which had been on hold due to a conflict between management and the union, caused by questionings of the collective labor agreement approved in May. The labor authority's order includes the company's obligation to pay its employees the due salaries for the time the strike lasted.

Aigo coming to Venezuela. The local market will have a new company in the technology sector. A few days after entering the Colombian market, the technological innovation company Aigo made the brand's launching in Venezuela official. Video beam projectors, USB memories, digital cameras, video cameras and the Aigo Pad are some of the products manufactured by this company. The stories of Aigo and Feng Jun are example of success in the last few years in the field of technology. In less than 20 years, it went from being a company with two employees to becoming a multinational company with presence in the United States and Europe.

Bancoro closed for audit due to liquidity crisis. According to resolution number 521.10 published in Official Gazette N! 39,530 dated October 14 of 2010, the National Superintendence of Banks and other Financial institutions (Sudeban) ordered the closed-doors audit of Bancoro, C.A., Banco Universal Regional, due to strong structural problems the institution had been presenting since approximately six months ago, including: Deterioration of the quality of its loans portfolio, product of a significant increase in the gross delayed payment rate with levels quite higher than those reported by the stratum and system, the negative net result of the financial year mainly originated by the increased transformation expenses (general, staff and administrative expenses), and the bank's little ability to generate enough resources from intermediation activities to allow it to absorb these transformation expenses with positive results. With the closing of Bancoro, the number of financial institutions under closed-doors audits since October of 2009 reaches 13.

Electric rationing extended due to increase in demand. The National Electric Corporation (Corpoelec), along with the National Electric System's charge dispatcher, gave orders to affiliated companies to create a rationing program for the electric power supply in twenty states of the country, in order to stabilize the system before the high levels of transference in the transmission networks, and the need to carry out maintenance labors to the networks so as to avoid the posterior collapse of the system.



85% of expropriations took place between 2009 and 2010. The National Government's intentions to displace private investors from the economy has gained ground in the last three years, a situation that can be verified in the reports issued by the Venezuelan Confederation of Industrials (Conindustria), which show that out of the 371 industries acquired by the National Administration since the year 2002, 315 were taken between 2009 and 2010, so 85% of manufacturing companies were expropriated during that period, thus increasing the growth rate of the new socialist economic model, which instead of improving their performances has deteriorated them by subjecting them to certain conditions and limitations.

Sudeban highlights improvement in the banking system's assets last month. The Superintendence of Banks (Sudeban) indicated in a press not that between August and September of 2010, the banking system's total assets increased by 2.97% after reaching Bs.F 383.45 billion as of the end of September. According to this information, the first seven banks focused 66.7% of the Venezuelan financial system's total. Sudeban highlighted that the net loans portfolio reached Bs.F 167.78 billion during September, a 1.98% increase compared to August. VEF 301.99 billion were obtained from new clients, a 2.76% growth compared to the previous month. Finally, loan intermediation had a slight decrease by 0.42 points in September compared to August, reaching 54.9%.

Spending in vegetables and fruit increased by more than 1000% over 8 years. Vegetables, greens and fruit are now first in the list of foods of which prices reported the highest increases over the last year. The increase in the price of essential dietary products has obligated consumers to change their habits, so they have opted not only to buy exactly what they need, but also to reduce the usual amounts to an extent of getting one unit per day.

Sales in Bicentenario supermarkets increase by 78%. The Vice minister of Nutritional Policies, Rafael Coronado Patiño, said the sales in the Bicentenario supermarket network (former Cada and Exito supermarkets), have increased by 78% over the first nine months of 2010. However, the information provided by the public clerk does not show that between August and September there was a 3.5% contraction in the sales of the state supermarket network, a result expected to improve in the next months, while the stores market share is also expected to increase.

Obstacles to import affect powdered milk supply. Dairy companies are going through serious problems to execute their import licenses for raw materials, a situation that affects the product's supply in the domestic market. Sector sources indicate the licenses granted so far have been issued to purchase at prices lower than the current price of milk in international markets, so they have not been able to materialize the purchases, plus there isn't enough supply in the foreign market, since the demand in



Asia has consumed the 2011 powdered-milk availability. Sector companies stated their concern before this situation since few of them have inventories tight now, and unless the mechanisms facilitating the product's import are activated, there will be complications regarding this product's supply.

World Crisis Tips

China surprises everyone. Unexpectedly, the People's Bank of China surprised everyone with the first increase to the interest rates in almost three years, raising the reference rate by 25 basic points, to bring the liabilities rate to 2.5% and the active rate to 5.6%. As a reaction to this measure, the world's markets shook and decreased. Analysts say that one of the possible reasons for this decision may be the fact that the inflation was growing, leaving the real interest rates in negative. Another possible reason involves the treaty signed between China and the United States regarding the strengthening of the currency by ending the war against devaluation to make it more competitive.

Fiscal deficit improves. The US fiscal deficit showed significant improvement for the fiscal year 2010 which ended on September 30 with a result of US\$1.29 trillion, when the fiscal year 2009 reported a deficit of US\$1.42 trillion, an improvement by 8.7%. It is worth mentioning that in 2009 the fiscal deficit represented 10.0% of the US GDP, while in 2010 this comparison reaches 8.9%. The decrease of the fiscal deficit in the year ended on September 30 is due to the fact that tax revenues increased by 2.7% and the government spending contracted by 1.8%. The increase in revenues was due to the corporate tax collections, which increased by 38.5%, and helped counteract the spending in health and income insurance by 10.4% and 16.9%, respectively. This shows the good signs of recovery being displayed by the American economy, though some signs of weakness are also present.

Industrial production acts weaker than expected. The positive results that have been reported by the US industrial production seem to be fading away after a drop by 0.2% reported in September, quite unexpected, considering the review down to the August reading that placed it at 0.2%. However, for the reading of the last twelve months, the accumulated increase is 5.4%, still positive, though not as strong as expected. Among the sectors that contributed to this fall are the manufacturing sector and the utensils sector, with falls by 0.1% and 1.9%, respectively,





Retail consumption improves for the third consecutive month. As reported by Haver Analytics, the good news is consumers are spending. However, their budgets do not let this spending be too big. Consumer's spending in retail purchases increased by 0.6% in September after having reported a 0.7% increase in August. The increase reported in September slightly exceeded analyst's projections of 0.4%. This increase reflects a 2.5% increase in the sales of light vehicles, and gasoline consumption increased by 0.5%, influenced by a 0.9% fall in its price, in a m/m basis.

Housing sector showing improvement. The home construction sector showed improvement in October, as reported by the Home Builders Association in its home construction index with a score of 16 points, compared to 13 points reported in September. However, this improvement is not enough to say the sector is finally showing signs of recovery, time will tell. The index reading indicates that any level below 50 points indicates a poor performance, while a level over 50 indicates the sector's good performance. This calculation is made through a survey.

Inventories grow. In August, inventories of US sales companies increased reaching a ratio of inventory over sales of 1.27, the highest since November of 2009. The total stock increased by 0.6% during the aforementioned month, which followed a 1.1% increase in July. Breaking the figures down by sector, the retailers sector increased its inventories by 1.0%, while the wholesale and manufacture sectors increased theirs by 0.8% and 0.1% respectively.

Commerce in Singapore shows strength. Even though Singapore is a small island, with five million inhabitants, it represents one of the economies with the largest GDPs per capita in Asia and the world. As of September, Singapore reports decreases in its exports, domestic trade, imports and re-exports by 2.3%, 2.5%, 1.0% and 2.1%, respectively. However, this should not be reason to be alarmed since this economy is used to showing m/m volatilities. Checking the y/y indicators we can observe how exports have grown by 18.8%, domestic trade by 17.3%, imports by 6.9% and re-exports by 20.6%, with a commercial balance that has grown by 17.6% and 21.7% in the first two quarters of 2010, with a 6.1% y/y increase accumulated in the first quarter. This is evidence of how strong the emerging markets are becoming after the crisis.

Political Tips

Ideological too. *"We're going on a new strategic journey (...) as part of an audacious foreign policy and consolidated foreign affairs. We enjoy our independence (...) some*





critics say this is an ideological tour, well, it is too,” acknowledged President Hugo Chavez when referring to the tour he is currently undergoing around Russia, Belarus, Ukraine, Iran, Syria, Libya and Portugal.

Exchange in Moscow until 2014. In his ninth official visit, scheduled in his international tour, President Chavez assured the signing of several agreements to create an investment bank and to transfer nuclear technology, along with other bilateral projects in the fields of mining, investment, finance and military cooperation. Chavez said: *“We are here to harvest new products, a new wave of agreements of great significance for our country.”* The critiques about the possible creation of an atomic bomb were ruled out by the president.

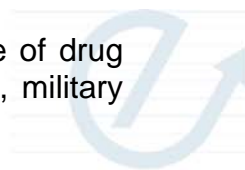
Lukashenko: “Chavez will not regret our friendship.” In his visit to Belarus, President Chavez emphasized the close bonds between both countries and the perspectives of consolidation of bilateral cooperation in different fields. The Belarus President, Lukashenko, expressed his satisfaction for the good relations between both nations, *“We are going to do so much for Venezuela that you will never regret your relation with us.”*

The tour continues: Ukraine. Last Monday, President Chavez held a meeting for the first time with his Ukrainian homologue, Victor Yanukovich, with the purpose of beginning bilateral relations in a commercial level. These Ukrainian-Venezuelan relations will begin with a private interview between both presidents, and then President Chavez will visit the Ukrainian State Corporation Antonov, an Aircraft factory.

Obama has spoken. Venezuela has “rights” but also “duties” concerning its nuclear policy, said the US president, Barack Obama, in a conversation with Hispanic media at the White House. *“Venezuela has rights at the time of peacefully developing the nuclear power, but also has duties... not to turn it into weapons,”* said the American president. *“We have a policy which applies to all countries and expect them to abide by such policies,”* he added, in reference to the Nuclear Non-Proliferation Treaty.

Isaias Rodriguez hopes to make the TSJ. The current ambassador of Venezuela in Spain, Isaias Rodriguez, submitted the necessary documents before the Judicial Postulation Committee presided by Representative Saul Ortega (PSUV-Carabobo), thus making his candidacy to magistrate official. Among the conditions established in the Constitution to opt to a position in the country’s maximum court are: *“being a citizen of recognized honorability.”*

Military Summit: Colombia – Venezuela. In order to analyze the presence of drug dealers and armed groups in the border between Venezuela and Colombia, military





and police forces of both nations will establish a meeting. Maria Angela Holguin, Chancellor of Colombia, said it was a great advance that would little by little allow for *“both nations to strengthen relations in order to fight together”* against the armed groups and drug dealers operating in common borders.

Isturiz: The current system does not allow socialism to advance. Aristobulo Isturiz, elect Representative for the National Assembly (AN), reiterated that as long as the structure of the *“representative democracy system”* remains and it is not substituted by a different system in which people are protagonists, it won't be possible to implement socialism. So, for congressman Isturiz, *“dismounting”* Mayor and Governor Offices is an indispensable condition for the effective advance of the socialist process in Venezuela.

Rodrigo Cabezas clarifies. After Isturiz's statements regarding the elimination of Mayor and governor Offices, the leader of the United Socialist Party of Venezuela (PSUV), Rodrigo Cabezas issued a press release explaining that his colleague's statements were *“personal.”* He also said that *“the revolutionary idea proposes socialist governors and mayors to rule as subordinates of the people making legal and institutional arrangements to give the People's Power the leading role by transferring competences and financial resources.”*

Division is the cause. The Venezuelan Communist Party (PCV) will continue to evaluate the causes of the result of the legislative election; however, they have already reached some conclusions. Among the *“errors”* made by Chavez's followers, PCV highlighted their failure to *“generate a space of cohesion for the set of political strengths boosting the process.”*

Opposition active. Opposition representatives celebrated the first day of parliamentary labors where they chose the members of at least eight working commissions to be in charge of supervising compliance with the Constitution within the National Assembly. Ramon Guillermo Aveledo, executive secretary of MUD, led the event and assured that *“all representatives of democratic factors are committed to building what Chavez followers work everyday to destroy. That's the reason the people stated their will on September 26, to create, not to destroy.”*

“Lock Law” proposed. The coordinator of Primero Justicia, Julio Borges, explained the need to authorize a *“Lock Law”* to stop *“giving away the resources of the Venezuelan people.”* Borges said the National Assembly needed to sanction a legal instrument to *“put a stop on the total lack of control in the budget management of ‘Mr. Giveaway.’”*





They do receive. Vice president Elias Jaua informed the supplementary appropriation for VEF 100 million authorized by the President of Venezuela, Hugo Chavez, for Government and Mayor Offices, came from excess resources from oil revenues. This is the fourth disbursement made with which the sum reaches VEF 5 billion that were not contemplated in this year's budget. Jaua highlighted the fact that 60% of these resources were destined to the states of Zulia, Carabobo and Miranda.

Changes in CTV. Daniel Santolo, leader of El Nuevo Sindicalismo (The New Workers' Union) has said the CTV needs to be renewed and justifies his actions before the Supreme Court of Justice (TSJ) to demand a call for elections. *"Our petition does not violate the agreements of the International Labor Organization (OLT). Our only intention is to favor the convergence of all working currents and to create a team to momentarily lead the CTV and create conditions to celebrate an election."*

The Attorney General's criteria. The Attorney General of Venezuela, Luisa Ortega Diaz, interpreted Article 200 of the Constitution and in her opinion, the parliamentary immunity of elected representatives before the National Assembly does not activate itself from the moment they are proclaimed, since they are pending the activation of "concurrent requirements," such as the start of their duties. This way, Ortega addressed the issue about the Democratic Unity Table's claim so that the elected representatives Biagio Pilieri (Yaracuy) and Jose Sanchez, aka "Mazuco" (Zulia) are released from prison.

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ECONOMIC OVERVIEW

