

## Maduro is running out of friends

In the run-up to the elections to the US Congress and Senate, on November 6, President Donald Trump stepped up his foreign policy. On November 1, in a speech at Freedom Tower in Miami, President Trump's national security advisor, Michael Bolton, revealed the intentions of putting obstacles in the way of the agendas of the Nicaraguan, Cuban and Venezuelan Governments, which he dubbed the "Troika of Tyranny." In addition, on Monday, November 5, the new personal, financial and oil sanctions against Iran went into force. These are in the vanguard in the world of international sanctions and are a preview of the way things might go in the future in the case of Venezuela.

The speech was accompanied by direct sanctions against Cuba and Venezuela and threats over the possible sanctions against the Nicaraguan Government. The regulatory framework of the new sanctions against Venezuela is specified in Executive Order No. 13850 "Blocking Property of Additional Persons Contributing to the Situation in Venezuela," which seeks to increase pressure on any local or international ally that works with the Maduro administration for corrupt purposes, to evade previous sanctions or in the gold sector.

More specifically, this Executive Order broadens the base of sanctionable acts and increases the penalties under the sanctions. From the start of the document clear emphasis is made on pressure on the mining sector to alienate trading partners that have helped the governing coalition to triangulate gold operations with Turkey in the past year. The sanctions are not limited to that sector, however. In fact, any transaction or participation in any ethically questionable projects will become sanctionable, and it is expected that the list of those sanctioned will get substantially longer in the short term.

The Government is boxed in the collapse of the economy and the Americans are blocking off any possible escape routes. This report offers a detailed evaluation of the new Executive Order, its implications for the country's external situation in 2019, how external restrictions might affect Venezuela's arrangements with the Chinese Government, and the future of the Venezuelan State's finances.

### The Executive Order

The Executive Order signed by President Trump has three main functions: First, to establish a series of new sanctionable acts, in other words it creates a new category of punishable acts that is much broader and much more ambiguous than the previous

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categories and states that those who commit such acts will be sanctioned under the conditions of that specific executive order; second, to determine some of the punishments for sanctioned individuals or entities, which are more severe than those provided for under previous sanctions; and last of all, to delegate to the Department of State and the Department of the Treasury the authority to expand the list of sanctionable acts and penalties for those who are sanctioned and also the responsibility for carrying out the sanctions. Therefore, it is expected that Officer of Foreign Assets Control (OFAC) will publish the list of sanctioned people during the next days.

### The targets of the pressure

On the matter of sanctionable acts, Section 1 of the Executive Order prohibits (i) any operation associated with Venezuela's gold sector or any sector as may be determined by the Secretary of the Treasury, in consultation with the Secretary of State; (ii) any direct or indirect participation in any transaction involving deceptive practices or corruption with the Venezuelan Government or projects or programs administered by the Venezuelan Government, or even with an immediate family member of a person in the Venezuelan Government; (iii) any material, financial or technological support, direct or indirect, for transactions penalized under subsection (ii) or any activity of persons penalized under this Executive Order; and (iv) any organization or person subordinated to anyone sanctioned under this Executive Order.

The intention behind this Executive Order is, basically, to increase the costs for anyone who takes part in any business undertaking with the Venezuelan Government or receives any income from that government, particularly in the mining sector. By extending the scope of the sanctions, even the most remote actors in any dubious business undertaking are implicated in the "crime" and the open or ambiguous definition of "dubious business undertakings" make many of the practices commonly engaged in by Venezuela's public sector sanctionable.

### The pressure

As for the punishment for those sanctioned, Section 1 blocks any asset or property belonging to the sanctioned individual or entity and also any asset transferred to such individual or entity in the future. According to Sections 3 and 4, the blocked assets may not be transferred, paid to a creditor, exported or withdrawn. Besides other individuals are forbidden to make any donation to the sanctioned individuals or entities or provide them with goods, services or temporary funds.

It is also forbidden for any sanctioned party to receive any funds or contributions in kind. This means that, once a person or entity has been sanctioned, he or it may not perform

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transactions in other currencies without putting its/his counterpart at risk. Anyone who is unfortunate enough to be included in the next long list of sanctioned parties will be completely alienated from the western world and will be infected with a virus that is spread by the financial direct or indirect contact.

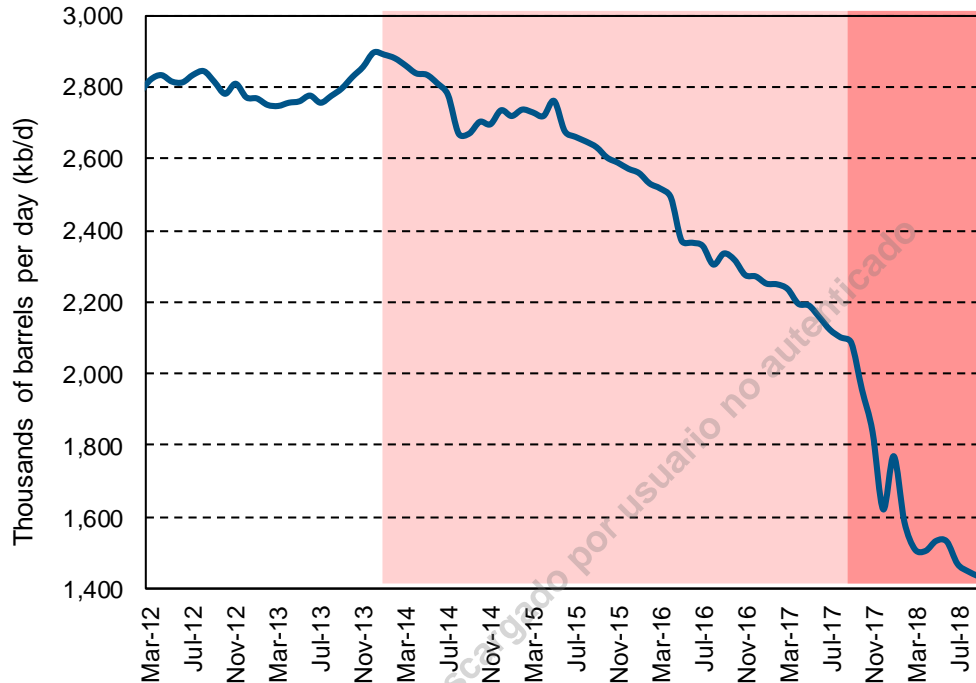
Article 2 forbids the entry of sanctioned parties to American soil and Section 7 is a kind of partial apology for not having previously notified those who will be sanctioned and were previously legally present in the United States. Technically, Trump is saying that, had they been warned ahead of time, the sanctions would not have had effect because they could have transferred their assets to accounts outside the country in time.

### **No more balancing acts or short cuts**

There are three sides to the financial impact of this round of sanctions. The general objective is to hinder the economic functioning of Venezuela's public sector, worsening its relationship with its suppliers and raising implicit transaction costs with its international allies in order to reduce the economic activity of the public sector.

Secondly, the sanctions aim to generate difficulties for the network used to sell Venezuelan gold or any other mineral on the international market or for any other economic activity the Venezuelan Government starts to use to generate cash in the future. In the context of an annual drop of 651 kb/d (31.2%) in oil production, the governing coalition placed its bets on gold in 2018 and found in Turkey an ideal ally for placing the gold in the international market.

### Oil production



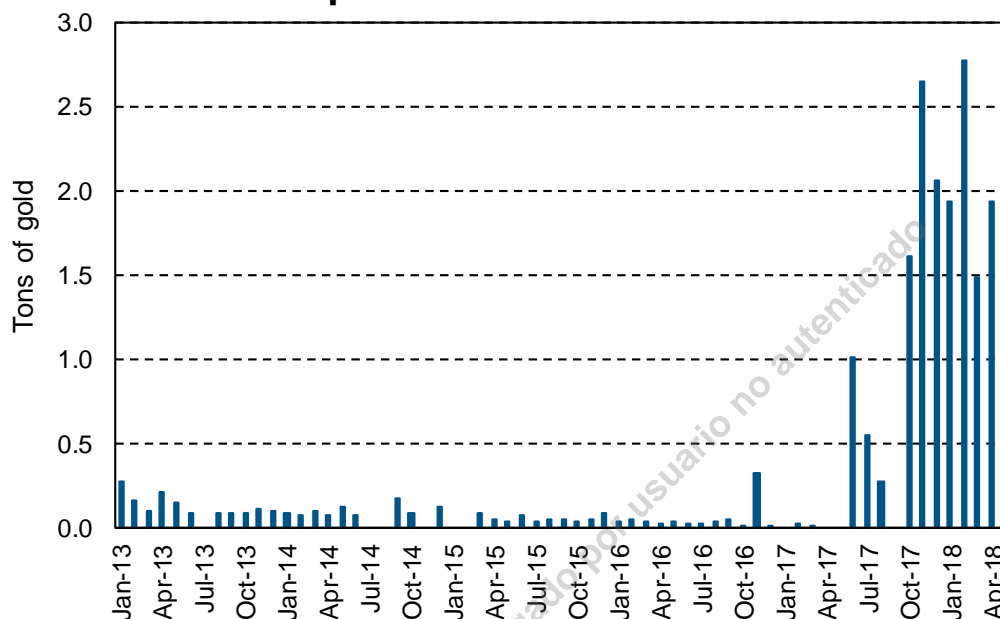
Sources: Pdvsa and Ecoanalítica

According to Turkey's official figures, it imported 23.6 tons of Venezuelan gold in the first nine months of the year, versus zero tons during the same period last year. The gold is apparently valued at a total of between USD 848.3 million and USD 935.2 million, according to its qualities and prices in the international market. This would be no mean amount for the country's external finances. In fact, it is similar to our estimate of USD 836.6 million for the government's foreign currency deficit at the close of 2018.

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## Gold purchases in the local market



Sources: BCV and Ecoanalítica

It is hardly likely that the sanctions will prevent Turkey from continuing to try to buy Venezuelan gold, and what it will probably do is to raise the discount rate at which it buys the gold. Nevertheless, the sanctions will cause friction with the broker that currently facilitates the placement of the gold in the international market and will drive off anyone who tries to assume that position as well as potential end buyers.

### The inexorable avalanche in 2019

Regardless of the sanctions, the external finances will be extremely complicated for the government in 2019. This is mainly because of the bad management of the oil industry, which has resulted in a sharp drop in production for 15 months in a row of 52 kb/d a month, on average. If Venezuela were to continue producing the 2.35 mb/d it produced during 2014 on average, the government would have an additional USD 37.1 billion available with which to finance its spending. In that case it would be able to pay the financial and bilateral debt scheduled for 2019 in full and there would be sufficient funds left over to raise non-oil imports by 280.2% to 2015 levels.

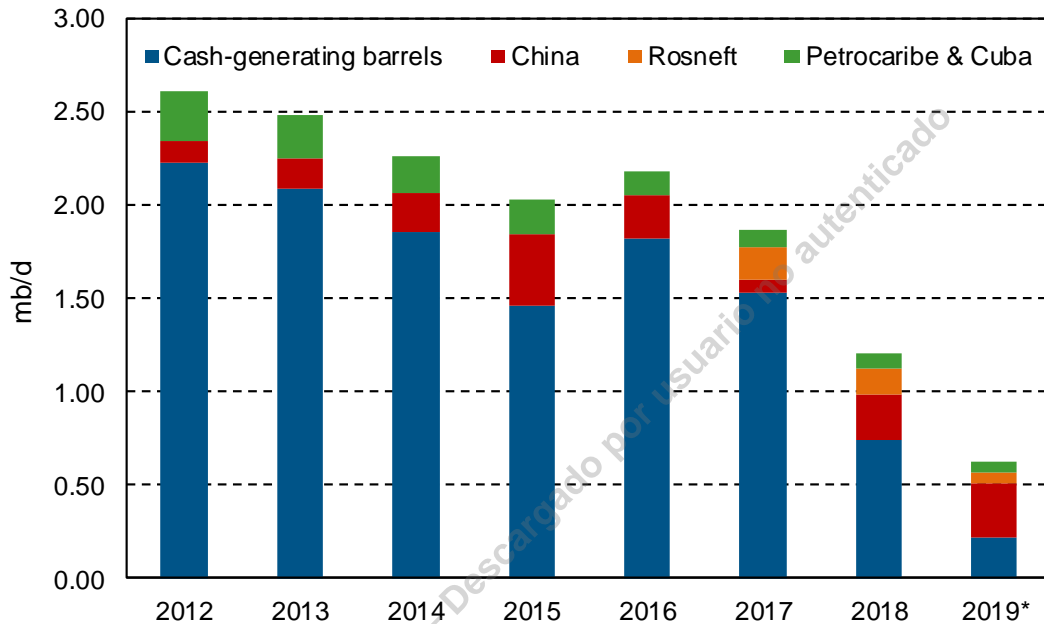
However, the real situation is quite the opposite. For next year, we project a drop in oil production to 819 kb/d on average. After taking domestic consumption and crude imports into account, this level of production would mean that only 623 kb/d would be exported, 50 kb/d of which would be destined to Petrocaribe and Cuba, 69kb/d would be marked

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for repaying the debt with Rosneft and 279 kb/d for repaying the debt with China. 226,000 barrels a day of cash-generating barrels will not be enough to finance the State.

### Composition of crude exports



Sources: Pdvsa, Mefbp and Ecoanalítica  
\*Projected

Even if we were to leave out USD 7.5 billion of the USD 9.3 billion that will have to be paid to financial bond holders according to the schedule of obligations that are on *default*, the external gap could be as much as USD 10.4 billion next year. The situation is dramatic and the United States' sanctions have significantly reduced the margin for maneuver.

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<b>Hard Currency Cashflow</b>			
<b>Item</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Effective Oil Exports (mb/d)<sup>1</sup></b>	1.8	1.1	0.6
<b>Oil Income (MMM USD)</b>	28.0	24.9	13.4
<b>Non-Oil Income (MMM USD)</b>	1.8	2.1	2.2
<b>Total Income (MMM USD)</b>	29.8	27.0	15.6
<b>Total Imports (USD MMM)</b>	11.9	12.3	12.3
<b>Services</b>	6.5	4.5	4.5
<b>Rent and Current Transfers</b>	1.9	1.9	1.9
<b>External Debt Service (USD MMM)</b>	11.4	2.8	1.8
<b>Private Capitals Outflow</b>	-1.8	-2.3	-2.6
<b>Total Expenditure</b>	29.9	19.1	17.9
<b>Net Flow with China</b>	-1.2	-5.5	-6.5
<b>Net Flow with Russia (Rosneft)</b>	-1.9	-3.2	-1.6
<b>Net Result</b>	-3.1	-0.8	-10.4

Sources: BCV, Menpet, Pdvsa and Ecoanalítica

\* Considers a 90 day lag due to the internal dynamics of the oil market

<sup>1</sup>We take into account the reexported crude imports

With only USD 1.4 billion in readily available international reserves, USD 3.5 billion in extra-budgetary funds, and an extremely low level of nonoil public sector imports, which could be cut (USD 3.1 billion), it seems impossible that the Maduro administration will manage to scrape together sufficient funds to pay its bilateral debt with Russia and China.

The size of the external gap is approximately equivalent to cutting total domestic hydrocarbons consumption as well as reducing the public sector's nonoil imports. Cutting both variables to zero would be socially unviable, particularly in a context where Maduro is trying to mitigate possible discontent within the ranks of the governing coalition.

Whereas a deficit of USD 10.4 billion looks to be unmanageable, a deficit of USD 3.9 billion would seem to be less so. If the government decides to default on its bilateral debt with China, it could scrape together sufficient funds between its readily available international reserves, its extra-budgetary funds, and some combination of a default on the USD 1.8 billion payment on programmed financial obligations that have not been paid, and a more manageable cut in public sector imports. In other words, the Government's dilemma is to pay to China, or import enough CLAPs and fossil fuels to maintain a certain degree of political stability.

### An unbreakable marriage with China

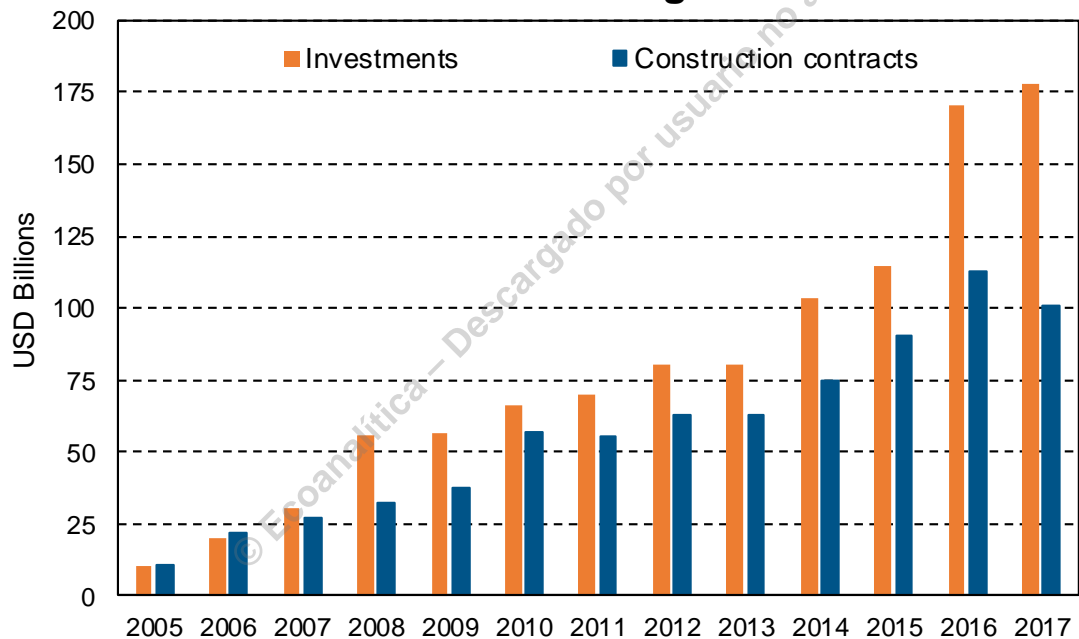
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While the default on the debt with Russia seems inevitable, the default on the debt with China seems to be the path of least resistance. Nevertheless, the costs of defaulting on China should not be underestimated. Since 2005, China has invested at least USD 1,090,350 million between 120 countries to finance near USD 780,240 million of construction contracts with themselves, which means that the case of Venezuela should not be evaluated in isolation. Even the payment terms regarding fossil fuels debt payments are not isolated for the Venezuelan case, since Russia and Brazil, Ecuador, Angola and Kazakhstan operate under similar conditions.

### Annual chinese foreign investments



Sources: American Enterprise Institute, The Heritage Foundation, and Ecoanalítica

In recent years, Ethiopia, Zambia, the Democratic Republic of the Congo, Angola, Sudan, Kenya, Cameroon, Ghana, and Djibouti, to name just some, have had problems with meeting their obligations and their relationship with China has become so confrontational that the Asian Giant has decided to freeze its level of investments in the continent for the first time. The African countries most over-indebted to China are Zambia, Djibouti and the Democratic Republic of the Congo. In the past few decades, Chinese credit emerged as an alternative to traditional multilateral financing, such as that provided by the International Monetary Fund, because it meant an offer of money unfettered by conditions of political, social or economic reforms.

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Ironically, the absence of conditions in terms of economic reforms was a double-edged sword and the investments were not efficient enough to generate enough economic growth and repay the debts. Basically, China over-indebted Africa –and Venezuela- and has come to realize that, faced with the situation of its unsuccessful investments, it needs to rethink its strategy. Far from pardoning the debts, China has tried to reschedule them or to take possession of assets as though it were a matter of executed guarantees.

One famous case is that of Zambia, where the external debt tripled driven by agreements with China. That year, the health and education budget was cut and taxes were raised in order to be able to pay the interest on the debt with China. In the end they refinanced part of the debt and a Chinese corporation took control indefinitely of Zambia's energy company and its most important communications company.

Ethiopia also managed to refinance its debt with repayments over the next 30 years, but it had to hand over control of the railway that was built in recent years by a Chinese company and financed by Chinese loans.

Sri Lanka found itself in the same destiny, with problems to pay its debt with China, they agreed upon selling 80.0% of the assets of its main port, a great project of USD 1.3 billion financed and constructed by China. After civil protests against the agreement, the sell was reduced to 70.0% but the Chinese requested the establishment of a Special Economic Zone (SEZ) for at least 99 years, which was conceded. This deal was similar to the one with the United Kingdom and Portugal, which gave origin to Hong Kong and Manaus on Chinese territory in the 20<sup>th</sup> century.

The SEZ are a key aspect of the Chinese strategy when it comes to investments in countries with governability or economic distortions, both characteristics present in Venezuela. In Africa, for example, seven SEZ were established since 2003 between Egypt, Ethiopia, Mauritius, Nigeria and Zambia. There, economic rules are more liberal and friendlier towards Chinese investment, reducing transactions costs to bring Chinese enterprises that would normally export to the country of the SEZ. Nevertheless, SEZ represent a potential danger in the long term.

Given the situation, nations like Pakistan, Nepal and Myanmar have taken their precautions and cancelled credit agreements on infrastructure with China near the USD 20 billion, and recently, Sierra Leone cancelled one of USD 400 million destined to a new national airport.

Venezuela and Africa are not the only high-risk investments in China's bilateral loans portfolio. Even though Djibouti is the second most over-indebted country because of them, after Venezuela, figures from the Center for Global Development indicate that there

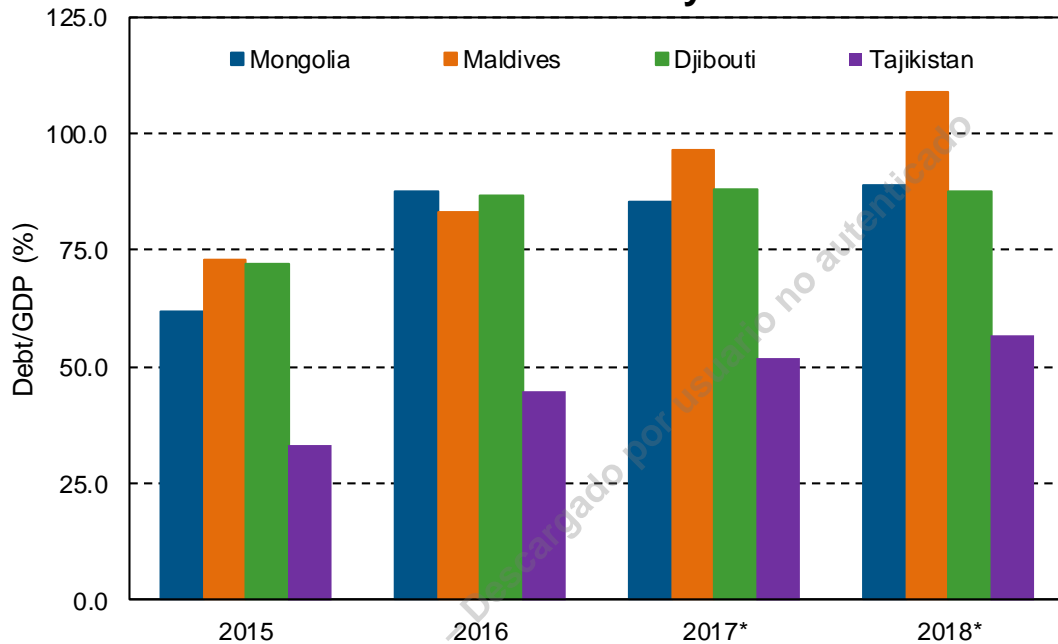
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are other countries at risk, such as Tadzhiestan, Kirghizstan, Laos, the Maldives, Mongolia, Pakistan, and Montenegro.

### Nations over-burdened by chinese debt



Sources: Center for Global Development, and Ecoanalítica  
 \*Estimate

Looking to the future, even in a scenario of a default on China, a rescheduling of the debt over the long term in exchange for concessions on local fixed assets in the short term is plausible. In 2019, the honeymoon phase in the relationship between Venezuela and China will change and become a problematic marriage that will last over time.

### Hemmed in by East and West

In the medium term, Maduro will face extremely stringent restrictions on the external front that will worsen relations with his biggest international creditor. With its latest round of sanctions, the United States has managed to curb any last-minute balancing act that could pull the governing coalition back from this imminent collision, alienating the Venezuelan government from trade with the West and commercial relations with its allies or local providers.

The result will be spectacular crash scheduled for 2019, in which international bond lenders, Conoco-Phillips and Rosneft will fight with one another to execute the few external assets the Republic of Venezuela has left and China will ask for possession of

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week November	Weekly chg. (%)	Depre/Apre (pp) <sup>1</sup>
FX Dicom (VES/USD)	64.89	0.5	0.5
	4th Week October	Weekly chg. (pp)	Annual chg. (pp)
Lending Interest Rate (%)	21.1	-0.3	0.1
	1st Week November	Weekly chg. (pp)	Annual chg. (pp)
Overnight Interest Rate (%)	5.8	-8.0	5.8
	1st Week November	Weekly chg. (%)	Annual chg. (%)
International Reserves (USD Bn)	8.8	-0.6	-9.6
	4th Week October	Weekly chg. (%)	Annual chg. (%)
Monetary Liquidity (VES)	209,565,248	16.2	39,001.8
Price of International Oil Baskets (USD/bl)			
	1st Week November	Weekly chg. (%)	Annual chg. (%)
WTI	66.0	-2.7	21.6
Brent	75.9	-2.5	24.8
Price of the Venezuelan oil basket (USD/bl)			
	1st Week November	Weekly chg. (%)	Annual chg. (%)
Weekly Average	68.7	-1.9	29.8
Annual Average	65.2	0.1	44.9

Sources: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

<sup>1</sup> Depreciation (+)/Appreciation (-)

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**GRAPH OF THE WEEK: "OUR DAILY BREAD"**


A year ago, inflation in Venezuela up until October was 43.96%. The twelve months since that date have been marked by an average monthly increase in prices of 119.8%, according to our estimates. The situation is even more critical if we look at the daily figures implicit in this monthly rate of growth.

The latest figures (for September and October) published by the central banks of several Latin American countries show that economies such as Colombia's and Peru's posted daily inflation of approximately 0.004%. In fact, no country posted a daily increase in prices of 1%. Venezuela was the exception, reaching daily inflation of 3.7%. Another figure that highlights the magnitude of local hyperinflation still further is that the average daily growth in domestic prices is equivalent to cumulative inflation in Brazil since December 2017.

Forecasts for Venezuela indicate that the problem of hyperinflation will continue, which means that this daily increase in prices will simply get bigger and bigger. An optimistic view of the situation is that hyperinflation does not last forever. But how much longer will it take for it to run its course?

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**ECONOMIC TIPS**

**Better safe than sorry.** According to an exclusive article by Reuters, the Venezuelan Government is thinking of repatriating 14 tons of gold, equivalent to USD 550 million. Apparently, the Central Bank of Venezuela made the request for the gold to be transferred two months ago, concerned that the sanctions on gold exports would be confirmed at the start of November.

**Being up front with the “saviors.”** As a member of the commission sent to Russia, Vice President for the Productive Economy and also member of the United Socialist Party of Venezuela (PSUV) Jesús Faría outlined the recovery plan drawn up by the Venezuelan Government.

**Repeating the message in Russia.** Among the things Faría explained were the measures already explained at home over the past few months: a new foreign exchange policy, stabilizing prices, exhaustive use of the price, and maintaining the purchasing power of wages.

**Petro fever.** The first offer of petros via the Savings Plan is now available. The platform has the backing of 4 million petros, which can be acquired in exchange for bolivars. This petro savings plan has options that can be executed at 90, 180 or 270 days.

**A golden future.** President Nicolás Maduro announced that, starting in 2019, Venezuela will be able to count on revenues of USD 5.0 billion from sales of the country's gold reserves and the certification of gold in the Orinoco Mining Arc.

**Risk without yield.** Russia's Minister of Finance Sergey Storchak gave statements to Bloomberg in which he implied that there would be no fresh financing for Venezuela due to the level of debt it already has. Storchak commented: “*Our partners understand that, given the problematic relations, the question of new loans does not arise.*” He also said that the Venezuelan Government was seeking advice from the Russians instead of money.

**Tax collection for October.** According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VEF 25,742 million were collected in taxes for the month of October. Of this amount, VEF 2,569 million came from Income Tax, and VEF 16,122 million from the VAT. The agency raised VEF 45,076 billion during 2018, of which VEF 8,039 billion came from Income Tax, and VEF 21,148 billion from Value Added Tax (VAT).

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**In real terms.** Total revenue in October of 2018 compared with the same period last year decreased by 88.5%. The VAT decreased 85.9% in real terms and customs revenues also decreased 92.6%. Meanwhile, income tax revenues decreased 90.4% in real terms over the same period of 2017.

## OIL TIPS

**More crawl out of the woodwork.** The US Department of Justice reported that Abraham Edgardo Ortega, previously PDVSA's executive director of financial planning, pled guilty to having taken part in an international embezzlement scheme under which money was laundered via a fake mutual fund.

**Just a small cut.** Ortega admitted to having received USD 5 million in bribes for giving priority loan status to a French oil company and a Russian bank that were minority shareholders in joint ventures with PDVSA. He also admitted to laundering \$12 million in bribe payments through the false investment scheme.

**A drop that was expected.** Crude exports to the United States fell in October, from 600,000 barrels a day (600 kb/d) in September to 489.28 kb/d in October (down 18.5%). This was due to maintenance work carried out on the crude upgraders at PDVSA's refineries and the impact, the consequences of which are still being felt, of the collision of an oil tanker against one of the docks at Venezuela's main oil port.

**In a nosedive.** The executive director of the International Energy Agency (IEA), Fatih Birol, said that they expected Venezuela's oil production to fall below 1 million barrels a day (mb/d) in the short term.

**A slight improvement?** The Russian state-owned company Rosneft revealed that Venezuela had paid USD 500 million of its debt with Rosneft in the third quarter of the year. Venezuela's debt with Rosneft went from USD 3.6 billion in June 2018 to USD 3.1 billion in September.

**Running on Empty.** The Venezuelan state-owned oil company, PDVSA, is about to exhaust its fuel reserves, forcing 2,700 service stations throughout the country to suspend sales until further notice.

**Collateral damage.** ExxonMobil is drilling in the Stabroek Block in Guyanese waters with proven reserves of 4.0 billion barrels of crude. However, it is expected that ExxonMobil will have to deal with the difficulties inherent to the region, since the exploration site is

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next door to the Venezuelan side where Russia, China and the United States are competing for influence in the industry.

**Well, it is affecting production.** Argus Media reported that, according to a source inside the People's Power Ministry of Oil, problems with the electricity service (frequent and prolonged power outs) are affecting PDVSA's operations and delaying plans for projects aimed at raising the production of crude. This contradicts the constant statements by the government claiming that there are no problems with the electricity supply, much less that power outs are having an impact on the oil industry's current situation.

**An obstacle but not an impediment.** The Government of Iran said that, so far, it has managed to sell all the crude it has needed to sell despite the pressure brought to bear by the United States. Since the resumption of sanctions in May, Iran's crude exports have been cut by between 40% and 60%. However, it is expected that they will go up again in November.

**A good 2019.** According to an exclusive article by Reuters, Iraq plans to raise its crude production and export capacity in 2019. Iraq's Minister of Oil Thamer Ghadhban stated that they expected production to go up to 5 mb/d by the close of 2019 and that it would average 3.8 mb/d that year.

## BUSINESS SECTOR TIPS

**From bad to worse.** According to the latest survey conducted by the Venezuelan Confederation of Industrialists (Conindustria), 71% of the businessmen interviewed described the situation as worse and much worse. They also said that investment had declined during the year.

**Uncertainty rules.** Ninety-one percent of the industrialists interviewed said that they had drastically reduced their operations and that they were uncertain regarding the future of their companies. Seventy-seven percent of the companies do not believe they can continue operating for more than two years.

**No to expropriation.** Armando Chacín, the president of the National Cattleman's Federation of Venezuela (Fedenaga), condemned the expropriation of ranches and the issuing of "illegal decrees" by some governors of the governing coalition. "Our social contribution as ranchers is to produce food for consumption, not to be a source of financing for some regional government thereby contributing to focuses of corruption," he said in his Twitter account.

**Against corruption.** In another tweet, he said *“We aren’t going to finance any state government or mayoralty with our effort and sweat. If they want cattle, they can raise them and fatten them on the land they’ve expropriated. That’s only fair. We are opposed to the illegal decrees; we’ll fight to get rid of them. If we fail, they will do away with Venezuela’s only protein.”*

**Millions of acres.** According to Barinas Rural Producers Association, more than 6,600,000 hectares have been expropriated in the past 10 years, more than 22,000 hectares of which are in Barinas. This has affected the production of milk and beef.

**Another Sunde census.** William Contreras, the head of the Superintendency for the Defense of Socioeconomic Rights (Sunde), announced that the commercial census for the textile, footwear and toy sectors would be held during the week of November 2 – 9. The census will be conducted in three ways: by Sunde officials visiting establishments, online, and notification by the Autonomous National Standardization, Quality, Metrology and Technical Regulations Service (Sencamer).

**What about freedom of speech?** The National Press Workers Union (SNTP) reported that, since Nicolás Maduro took office as president, 115 media have closed down in Venezuela. In 2018 alone, 25 newspapers stopped circulating and there are no longer any newspapers in Barinas, Sucre and Trujillo. A total of 41 newspapers and other printed media, 65 radio stations and eight television channels have ceased operations.

**No phone.** On Friday, November 2, the voice and data systems of the private telephony services company Movistar were down throughout the country for more than eight hours. Digitel also reported the theft of fiber optic cables, which caused problems with their services, particularly in the Andean states.

**No light.** The national electricity company, Corporación Eléctrica Nacional (Corpoelec), reported that Los Teques, El Paraíso, El Hatillo, El Junquito and Baruta have not had electricity due to problems in several electric circuits.

**Measles threatens indigenous communities.** A few weeks ago, the Pan American Health Organization (PAHO) reported a measles epidemic in indigenous communities in Venezuela. Between January and September this year, 516 members of these communities in Amazonas, Delta Amacuro and Monagas were infected with measles. It also reported 64 deaths during that period.

**Most of them are kids.** Local organizations, such as Kapé Kapé, report more alarming figures. As at September 2018, it had recorded 71 deaths in Amazonas and 53 in Delta

Amacuro. It further specified that 28 of the deaths in Delta Amacuro were children between the ages of 0 and 12 years.

**HIV too.** However, measles is not the only disease affecting these communities. Seven members of indigenous tribes died in Delta Amacuro as a result of the lack of treatment for the human immunodeficiency virus (HIV) and the Ministry of Health confirmed 797 cases of malaria in Amazonas in the first quarter of 2018.

**Without workers.** The rector of *Universidad Central de Venezuela* (UCV), Cecilia García Arocha, commented that she is signing “an average of 10 resignations a day” submitted by the university’s employees. She also said that only 30% of the budget had been approved and that 90% of that budget is allocated to paying wages.

**Venezuelan Central Bank protests.** Last week, workers at the Central Bank of Venezuela protested to demand better salaries. Oliver Rivas, representing the bank’s vice presidency, tried to mediate with the workers, but without success. As the day wore on, workers from the Caracas Metro and the health sector joined the protest.

## WORLD ECONOMY TIPS

**The first signs of peace?** The United States and China are finally to hold meetings to settle the trade disputes between the world’s two main economies. The trade war, which has led both parties to impose tariffs on their imports, is starting to cause damage to China’s economy and has hit the Asian Giant’s shares and currency hard.

**Stronger than ever.** The United States has reinstated economic sanctions against Iran that are “even stronger than the previous ones,” a situation that has given rise to protests in Iran. The sanctions focus on affecting key points of Iran’s economy: oil exports, shipments, and the banks.

**Turkey will disobey.** Turkey’s President Tayyip Erdogan announced that he would not abide by these sanctions because, according to him, they sought to “*upset the balance of the world order.*” It should be noted that Turkey was one of the eight countries that were allowed to trade temporarily with Iran by the United States, despite the sanctions.

**More jobs, higher wages.** In October, employment in the United States posted a strong upturn and wages registered their biggest increase in nine and a half years. This indicates an improvement in the labor market that could prompt the US Federal Reserve to raise interest rates again in December.

**The great “defender” of globalization.** At the opening ceremony of the trade conference in Shanghai, China’s President Xi Jinping defended globalization and promised to make greater efforts to open up China’s economy. Although he gave assurances that China would seek to encourage imports and lower tariffs, China still maintains barriers against firms that seek to enter the Chinese market.

**Sanctions on the table.** The European Union’s Commissioner for Economic and Monetary Affairs and the Euro threatened to impose sanctions on Italy if it does not reach an agreement on Italy’s budget for next year. In October, the European Commission rejected Italy’s budget plan, since it considered that it flagrantly violated the European Union’s fiscal standards.

**Make Brazil great again.** Brazil’s President-elect Jair Bolsonaro announced that he would revise the country’s costly pension system once he takes office on January 1 in order to control the unsustainable government budget deficit. Bolsonaro’s team of economists wants to solve the budget deficit as quickly as possible so that investment starts to flow again and to encourage growth and the creation of jobs.

**Inflation in Colombia.** The National Statistics Office reported that Colombia posted inflation of 0.12% in October due to higher housing and transport prices. Consumer prices between January and October this year went up by 2.75% compared to 3.5% for the same period last year.

**Growth down by half.** According to government-controlled media, Cuba’s economic growth will be around 1% this year, less than the 2% forecast previously. This is due to a drop in revenues from tourism, sugar, and mining (nickel), three key sources of revenues for Cuba.

## POLITICAL TIPS

**Our borders, another’s problem.** Minister of Defense Vladimir Padrino López officially confirmed the death of three members of the Bolivarian National Guard when they were ambushed by alleged paramilitary groups from Colombia. In his statements regarding the incident, López said: *“We reject the inability of the Colombian Government to control its violent groups and its drug trafficking.”*

**Prepared to do what’s necessary.** The Colombian Government stated that it was prepared to offer the Venezuelan Government its “full collaboration” to ensure the

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punishment of those responsible for the murder of three members of Venezuela's armed forces in Amazonas.

**A work in progress.** A spokesperson of the European Commission, Carlos Martín Ruiz de Gordejuela, said that the necessary conditions still did not exist for there to be a dialog or mediation in Venezuela. He also stated that "*the European Union and Latin America are exploring the possibility of establishing a point of contact with countries and actors interested in the issue.*"

**The sanctions won't have any effect.** President Nicolás Maduro claimed that the new sanctions imposed by the US Government would have absolutely no effect on Venezuela's performance, although he did admit that "*perhaps they would make things a bit more difficult.*" He also described the sanctions as "*crazy and schizophrenic.*"

**More measures to steal.** Adopting a similar line, the president of the Constituent National Assembly, Diosdado Cabello, said that the purpose of the sanctions imposed by the United States is to "*avail itself of Venezuela's natural resources.*"

**After the swearing in.** Coordinators of the Group of Lima analyzed possible actions that might be taken after Nicolás Maduro starts his new term in office on January 10. They also said that they intended to hold two more meetings before that date to take firm decisions that would support the plan that is being developed.

**Defending themselves from insinuations.** After President Nicolás Maduro referred to Deputies Américo De Grazia and Andrés Velásquez as "*gold pranes (leaders of organized crime) and traitors,*" the Democratic Unity Alliance benches in the National Assembly approved an agreement in which they requested the international community to grant the deputies measures of protection.

**Sanctions have been renewed.** The European Union agreed to extend the embargo on selling weapons to Venezuela and the sanctions on individuals identified as having been involved in repression in Venezuela for another year. The European Union decided to maintain these sanctions in view of the fact that "*the deterioration of the situation in Venezuela continues.*"

**A joint effort.** Spain's Minister of Foreign Affairs Josep Borrel insisted that solutions of a military nature were wrong and that international pressure should not be positioned as the only solution to the crisis, but that it should be accompanied by dialogs that would facilitate a "*democratic, peaceful and negotiated*" solution.

**Taking a long-term view.** Former Prosecutor General of Venezuela Luisa Ortega Díaz confirmed that the National Assembly is to discuss a draft amendment to the Constitution that would modify Article 333, submitted by her. This amendment seeks to avoid the present Constitution being replaced by one drafted by the Constituent National Assembly.

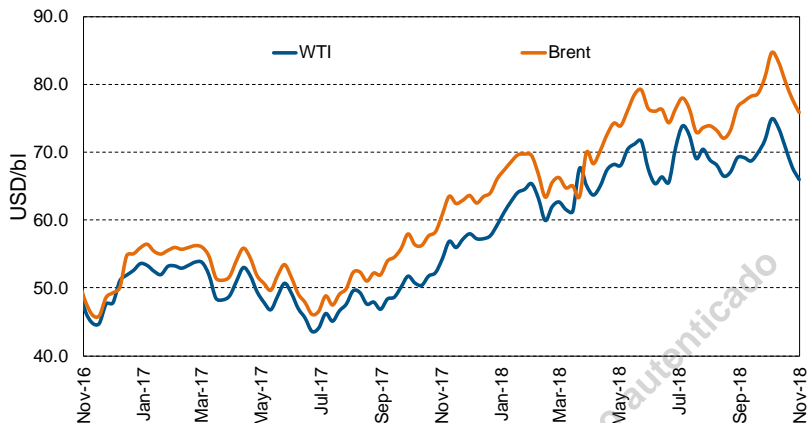
**Pressure from Brazil.** Brazil's Vice President-elect Hamilton Moura said that the recently elected Bolsonaro administration will bring pressure to bear on the Nicolás Maduro administration via diplomatic channels. Moura, who was the military attaché at the Brazilian Embassy in Venezuela between 2002 and 2004, commented that he is seeing how the power of *Chavista* ideology is coming to an end.

**Is Russia in our corner?** Executive Vice President Delcy Rodríguez made a point of the fact that the Russian Government supports the Recovery, Growth and Economic Prosperity Plan. According to Rodríguez, this plan was created solely to cope with the sanctions imposed by the United States and the European Union.

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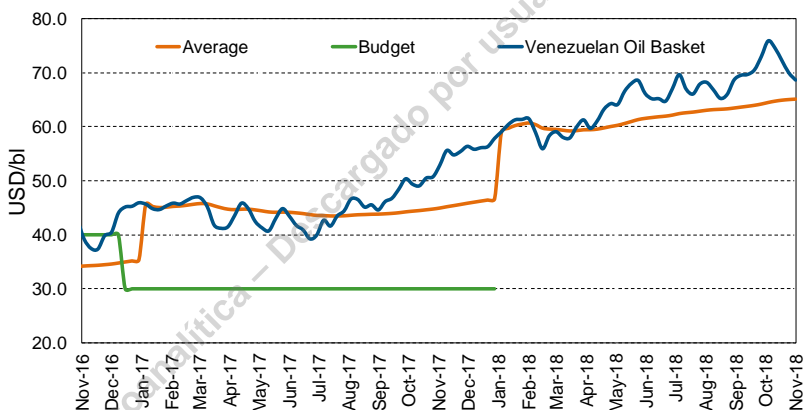
## ECONOMIC INDICATORS

**Oil Prices  
(WTI and Brent)**



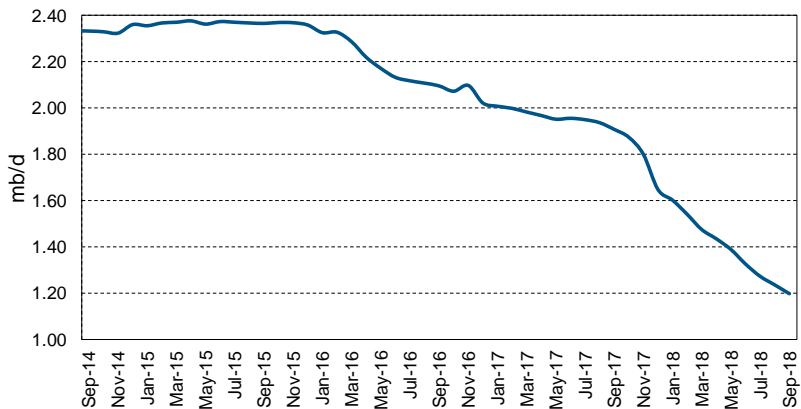
Sources: Menpet and Ecoanalítica

**Oil Price  
(Venezuelan Basket)**



Sources: Menpet and Ecoanalítica

**Oil Production  
(Secondary sources)**

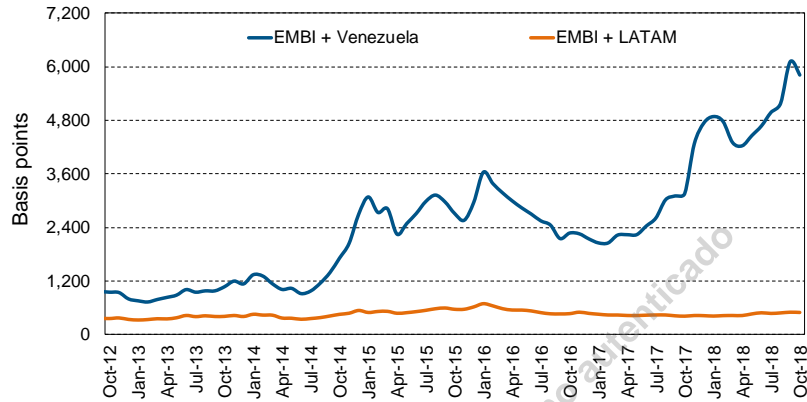


Sources: OPEC and Ecoanalítica

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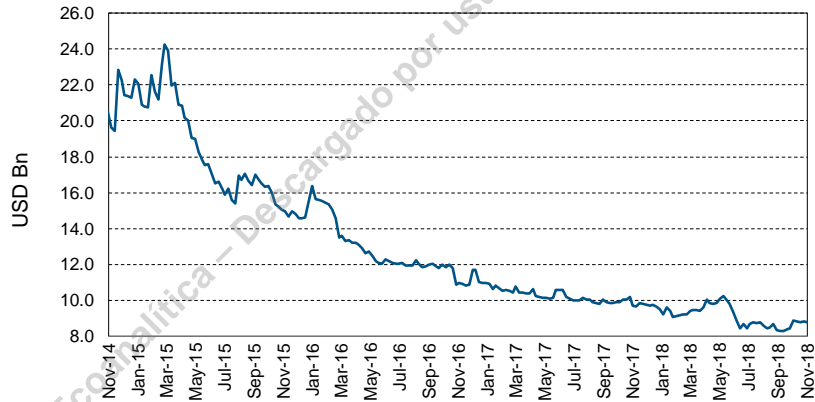
**ECONOMIC INDICATORS**

EMBI



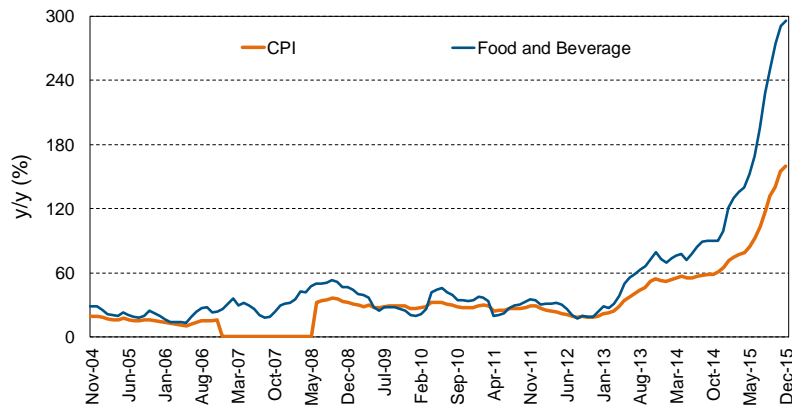
Sources: BCRP and Ecoanalítica

FX Reserves (BCV)



Sources: BCV and Ecoanalítica

Inflation (BCV)



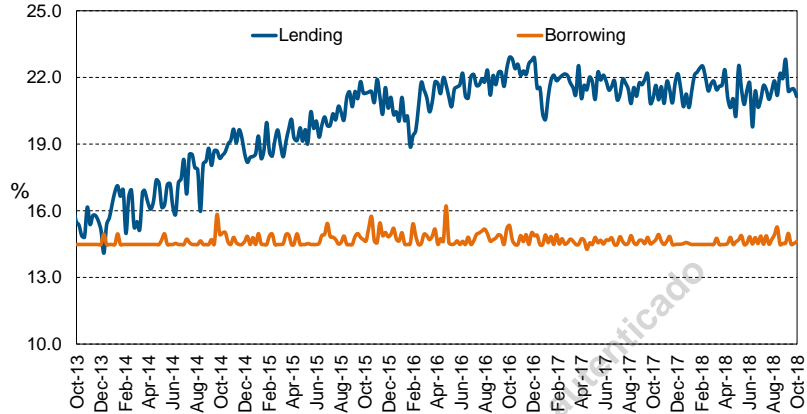
Sources: BCV and Ecoanalítica

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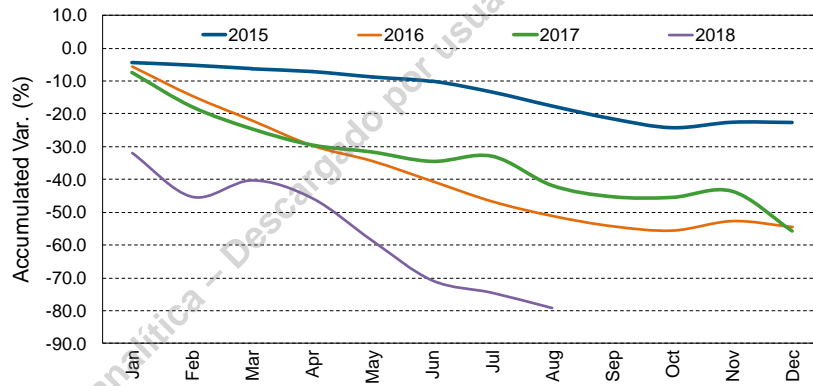
**ECONOMIC INDICATORS**

**Interest Rate  
Six major banks)**



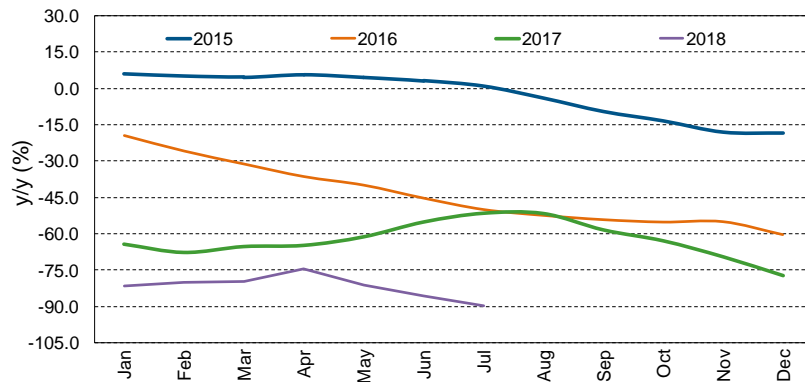
Sources: BCV and Ecoanalítica

**M2 Expansion  
(Real)**



Sources: BCV and Ecoanalítica

**Loan Portfolio  
(Real)**



Sources: SUDEBAN and Ecoanalítica

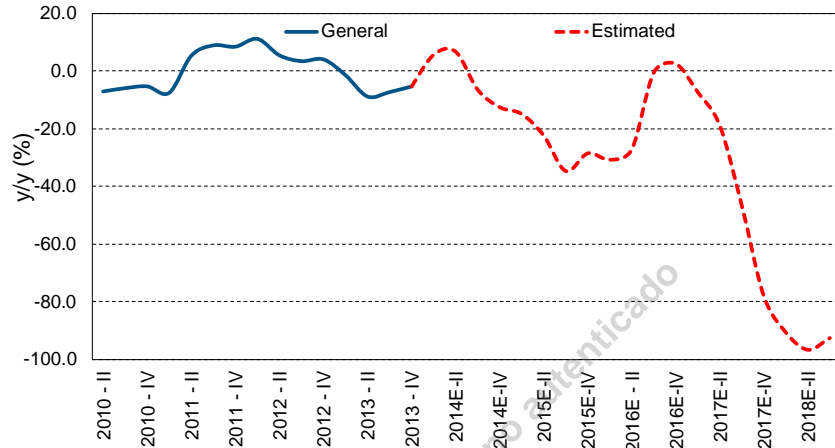
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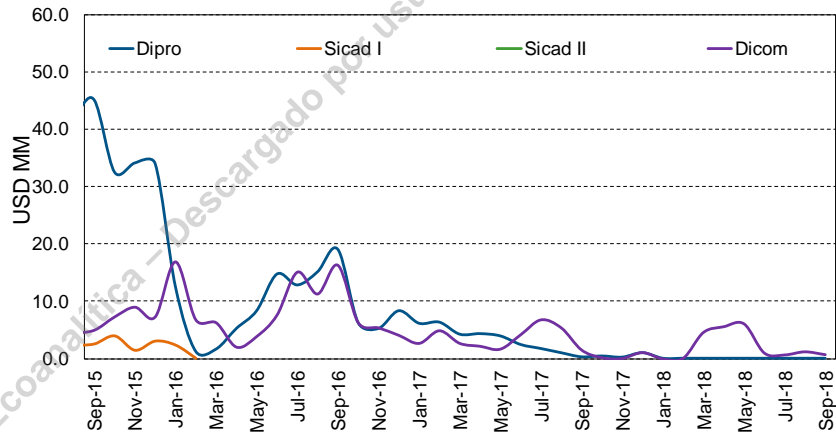
**ECONOMIC INDICATORS**

**Real Wage Index**



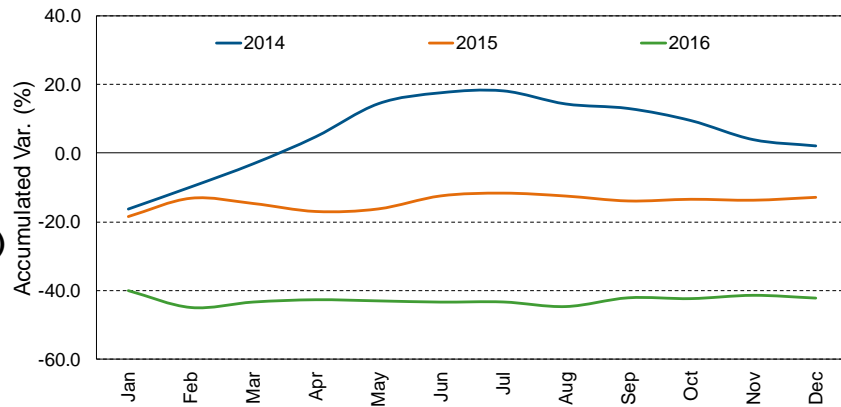
Sources: BCV and Ecoanalítica

**Disbursements to the Private Sector (Daily Average)**



Source: Ecoanalítica

**Primary Spending NTO (Real - Central Government)**



Sources: ONT and Ecoanalítica

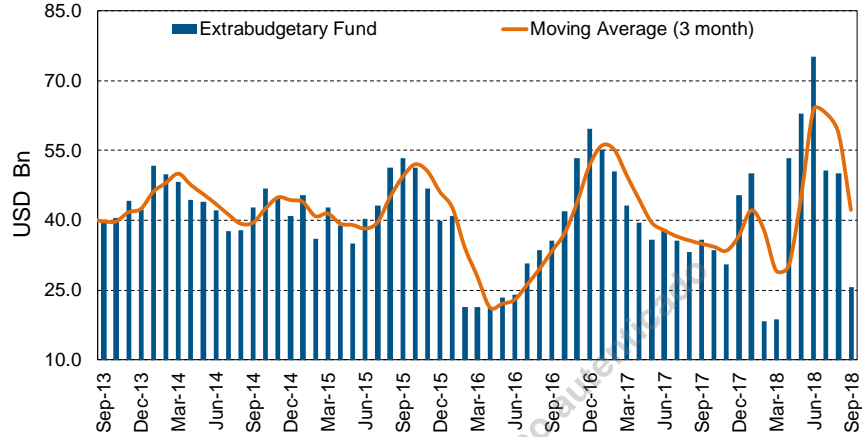
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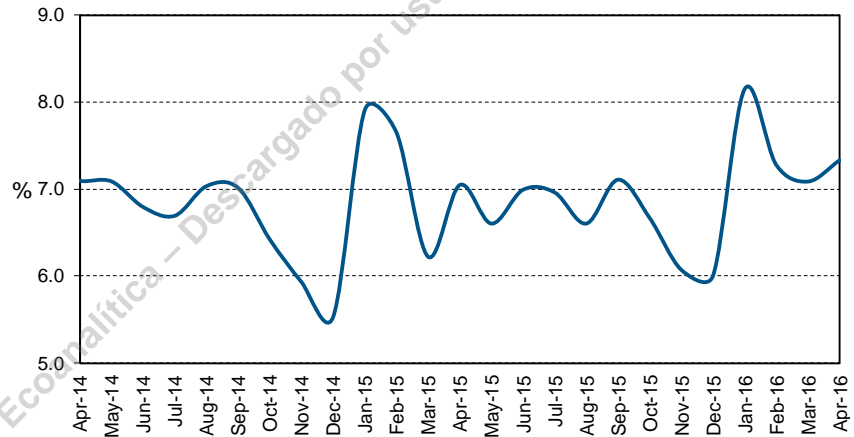
**ECONOMIC INDICATORS**

**State Extrabudgetary Resources**



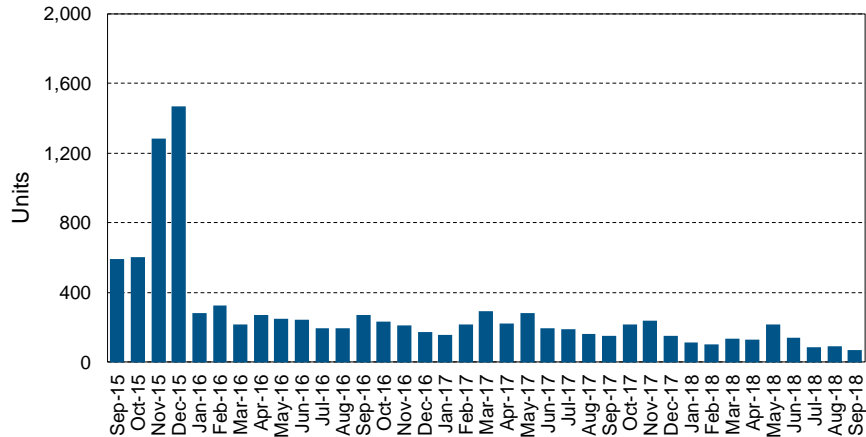
Source: Ecoanalítica

**Unemployment Rate**



Sources: INE and Ecoanalítica

**Vehicle Sales**



Sources: CAVENEZ and Ecoanalítica

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