



Weekly Report

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*Sucre for dummies: The
ABCs of this new system*

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Since 2008, the Administration has been working on a project to consolidate a currency payment mechanism called Sucre. The question being asked by businesses working in Venezuela is: Is this mechanism viable? Will it streamline the process and cut delays in getting foreign currency? This Report will focus on giving you an idea of what this system is like and what it encompasses.

What is the Sucre?

It's a Currency System for Regional Compensation of Payments. Sucre, spelled in capital letters is the Spanish abbreviation which refers to the system, "Sucre" in lower case letter refers to the unit of currency that the system uses. It's important to point out that the "Sucre" is a virtual currency, not minted in either coin or bill or any physical form, and it is to be used to value and process payments of goods between countries in the region, and also used as a means of payment between the Central Banks of these countries.



According to the Administration, the countries in the region which will participate in Sucre will depend less and less on the US-dollar in the medium and long term. This will protect them from the instability of said foreign currency. For the Venezuelan Government, this currency represents a step forward towards its goal of creating regional financial independence for itself and the countries in the region and the rest of South America and Central America.

How it came about

This project was aimed at integrating and strengthening the commercial ties between the countries members of the ALBA-TCP. It was created in Caracas on November 26, 2008 during the III Extraordinary Summit of Heads of State and governments of the ALBA-TCP. The Draft Agreement for the creation of the Sucre was unanimously approved by the States which made up the ALBA-TCP on April 16, 2009, during the VII Summit of the ALBA held in the city of Cumaná.

In order to conform the Sucre, three very important elements had to be established:

- A Common Currency Account in the Sucre.
- A Central Chamber for Payment Compensation.
- A Stabilization, Reserve, and Development Fund.

On January 27, 2010 the Constitutive Treaty of the Sucre takes effect and the Regional Monetary Council (CMR) of the Sucre is initiated during the I Executive Board meeting of the CMR. The president is elected and 152 million Sucre are issued and distributed among the States participating. On February 3, 2010, the first transaction using Sucre was carried out, an export operation from Venezuela to Cuba which was paid by this currency.

What makes up the sucre?

The value of a Sucre depends on a money basket made up of the local currencies of the ALBA member countries which signed the Constitutive Treaty of the Sucre, or in other words: the boliviano from Bolivia, the peso from Cuba, the córdoba from Nicaragua, the bolívar from Venezuela, and the dollar for Ecuador.

The share of currency placed in the money basket by each State member will correspond to the relative weight of their respective economies and their trade participation between the other economies registered in the Sucre, and their reciprocal trade. The share of each currency in the make-up of the money basket will correspond to its relative weight in the reserve portfolio of developing countries and emergent economies. This foreign currency



basket will only operate when maintaining the stability of the Sucre so requires it.

The Sucre must also evolve towards being able to be exchanged with other foreign currency (Euro, US-dollar). Establishing this money basket of foreign currencies is the first step towards eventually regionally integrating the Sucre; and when this happens then it would be an authentic region currency, being minted in coin and bills. So, the Administration sees the Sucre as an integration agreement with these countries which could eventually have its own currency. At **Ecoanalítica**, we believe that this project is not viable and that the Administration is far from moving forward with a genuine monetary integration process such as the one which took place in the European Union when they established the Euro.

How does this account operate?

The Sucre will be exclusively and solely issued by the Sucre Regional Monetary Council, and it will be empowered to assign amounts of Sucre to the member States in the proportions it so determines, based on a set of established guidelines and in order to fulfill payment needs in the course of reciprocal trade operations.

The value of the Sucre is determined based on the money basket created by the Sucre member States and a foreign currency basket made up of the main foreign currencies used around the world for trade. This value is calculated on a periodic base and the exchange rate is issued in the respective currencies of the member countries and with other foreign currencies (US-dollar, Euro, etc.).

| Exchange rates | SUCRE | Bolivia BOB | Cuba CUP | Ecuador US\$ | Venezuela VEB |
|----------------|-------|----------------|-------------|-----------------|------------------|
| SUCRE | 1 | 8,84 | 1,16 | 1,25 | 5,38 |
| US\$ | 1,25 | 7,07 | 0,93 | 1 | 4,30 |

Sources: Sucrealba.org and Ecoanalítica

An important point for companies

In order to carry out a trade operation through the Sucre, it has been established that a trade contract between economic entities may include the price and the total amount of the contract in any currency, as well as allowing for a purchase order and a letter of credit, but it must be established that payment must be made through the Sucre. This is an important point to keep in mind for companies which have branches in the member States and want to carry out an operation using the new mechanism.



Important elements to know to operate in the Sucre

It's important to realize that this system is already operative and that it is backed by a legal framework: The Framework Agreement for the Sucre and the Constitutive Treaty of the Sucre. The Central Bank of Venezuela (BCV) has already released a manual on how to carry out operations in the Sucre; these are the most relevant ones:

- Channeling payments through the Sucre is voluntary and must be carried out through the Authorized Operation Banks (BOA) in the National Finance System previously designated by the BCV. The operation will be electronically channeled through Sucre Participation System (SIP-SUCRE) which is administered by the BCV.
- The BOA of the National Finance System must have previously verified the import operation, registered the importer in the Registry for Users of the Foreign Currency Administration System (RUSAD), currently being managed by the Commission to Administer Foreign Currency (CADIVI). This requirement is a very big obstacle to overcome, especially for new importers.

What operations are allowed in the sucre?

According to the manual released by the BCV, the following operations would be allowed:

1. Payments corresponding trade operations for any of the goods and services found on the list issued by competent national entities from member States in accordance to the nature of the operation in question. This can be interpreted as any goods and services included on the Cadivil list, but it is not completely clear.
2. Financial operations deriving from the aforementioned trade operations, as long as they have been authorized by the Regional Monetary Council and by the competent national authorities.

Operations not allowed

According to the BCV, the BOA National of the Finance System will not be allowed to channel through the Sucre the following operations:

- a) Discount operations of any kind.
- b) Payments corresponding to personal transfers abroad.
- c) Trade operations of goods and services and financial operations derived from these that are from States not members of the Constitutive Treaty of the Sucre.





Payment instruments

Payments made through the Sucre may include the following:

- a) Purchase Orders; Letters of Credit or Documentary Credit.
- b) Letters of Credit may not be issued, in any case, after the merchandise has been nationalized.
- c) Stand-By Letters of Credit are not admissible, nor are Revolving Letters of Credit admitted, or any which incorporate a Red Clause.

So... does it make it easier or not?

The Sucre became an issue this year because of two main reasons: the restrictions placed on the parallel market during the first semester of the year and the delays Cadivi is having liquidating requests. This has made a number of companies look to the Sucre and wonder if it were a way out. In our opinion, the Sucre can only help alleviate some of the delays for companies which already use Cadivi for their operations. If your company is already receiving foreign currency from Cadivi, then it is doing business with goods considered to be priority by the Administration, it should evaluate if it isn't best to stick with this system.

At **Ecoanalítica**, we recommend that you take a look at the Sucre system, especially if you are doing business between any of the member States, especially Ecuador. We have heard that the Administration is about to open up the Sucre mechanism to the private sector, making it easier for them to participate.

This would make the Sucre, the new Aladi system for companies already using the Cadivi system. Hopefully, this will change in the future since the Sucre is not a viable mechanism for companies doing business outside of the "official" market, which only leaves them with the Sitme. For those companies left out of the Cadivi list, there is nothing to do but wait for the changes to be made in the Sitme next year, a subject we will address in our upcoming Weekly Report.



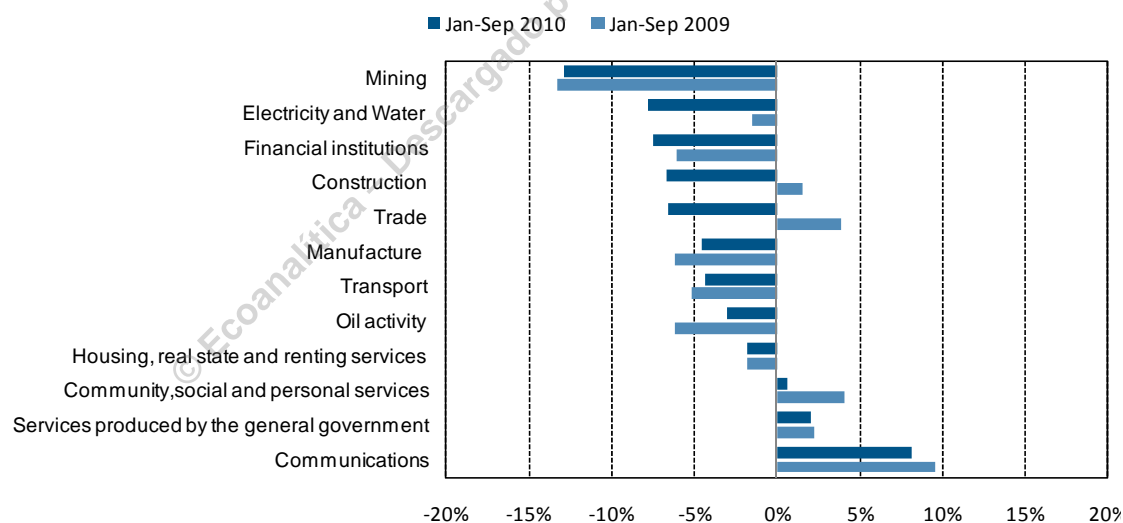


Economic Tips

GDP contracted 0.4% during the third quarter of 2010. This week the Central Bank of Venezuela (BCV) published the results of growth for the third quarter of 2010, which showed a year-on-year decline of 0.4%. The oil industry had fallen to 2.1% significantly higher than that of non-oil activity that was 0.2%.

GDP by sector. As can be seen in the graph below growth by sector has been quite heterogeneous during the first three quarters, from a growth of 8.5% in the case of the telecommunications sector, up to a 13.6% contraction in the sector mining.

Growth by economic activity



Sources: BCV and Ecoanalítica

President of BCV thinks we will begin growing in the fourth quarter. According to statements issued by the president of the Central Bank of Venezuela (BCV), Nelson Merentes, before the National Assembly's Finance Commission, based on "the readings of different indicators... we are likely to start growing as of the fourth quarter."

Balance of Payments. During the first three quarters of the year, the current account showed a significant improvement in achieving a positive balance of US\$15.36 billion compared to US\$2.80 billion during the first three quarters of 2009, thanks to higher oil prices and the continued contraction of imports which recorded a fall of 17.3% during this period, while exports increased by 20.1% (21.5% and -1.6% of oil and non-



oil). Capital and financial account deficit remains a deficit of US\$ 1.78 billion for the third quarter of 2010, a larger deficit than the same period last year which was US\$ 1.72 billion.

Pdvsa was able to exchange 18% of Petrobonos 2011. Pdvsa informed that as of the expiration date of the period proposed to exchange Petrobonos 2011 (zero yield bonds due on July 10, 2011) for the new Pdvsa 2013 (bonds with a six-monthly yield of 8% per year), 18.33% of the Petrobonos 2011 (equivalent to US\$549.9 million) were successfully exchanged, which represents the activation of US\$618.6 million in new Pdvsa 2013 bonds, due to the exchange factor of 112.5%, and as a consequence, US\$2.45 billion in Petrobonos 2011 remain in circulation. According to sources in Pdvsa's financial area, the state company maintains open negotiations with a private investment fund that holds more than 60% (US\$1.8 billion) of Petrobonos 2011.

PDVSA will reopen 2017(N) bond issue. PDVSA will reopen the issue of new bonds 2017 (8.5% coupon) for US\$3,000 million more that will be used to cancel a debt of US\$2,000 million that PDVSA has to BCV. According to the information we handle the issue will be private, i.e. non-local investors can access the issue directly in the primary market, as the Central Bank will buy the entire issue to later partially sell it to the financial system, which gradually negotiate in the SITME, to finally get the issue to international markets.

78% of the budgeted government spending was executed between January and October. According to the National Treasury Office (ONT), during the first 10 months of 2010 the central Government executed 78% of the budget.

Fiscal income increases thanks to extraordinary revenues. According to the information provided in the monthly bulletin published by the BCV, the Government's ordinary income in the period between January and August 2010 reached VEB 97 billion, 18.4% more than the collection of the same period of 2009, but subtracting the effect of inflation, it has a purchasing power 8.85% lower. Moreover, extraordinary revenues reached VEB 55.71 billion in the same period, almost twice as much as the extraordinary revenues reported during the first eight months of 2009 (VEB 28.02 billion), thanks to the strong increase in oil prices (32.5% compared to the average of both periods). Adding up, the total income of the first eight months of 2010 reached VEB 152.72 billion, that is, 38.9% more than in the same period of 2009, or 6,9% in real terms.

Government spending increased less than proportionally. On the other hand, the total Government spending increased less than proportionally to the income, with a nominal increase by 24.7%, a 4.0% fall in real terms.



Pdvsa and BCV to destine VEB 6.9 billion to housing plan. The president of the Central Bank of Venezuela, Nelson Merentes, said in a meeting held at the National Assembly that this institution would channel funds to build housing solutions and that VEB 500 million would be transferred to the National Housing Bank within days. From the funds to be managed by the BCV, the housing sector will receive VEB 6.9 billion as an extraordinary contribution, since out of Pdvsa's bond issuing for US\$3 billion, US\$1.5 billion (VEB 6.4 billion) are devoted to the same activity.

Already in Official Gazette. The Extraordinary Official Gazette No. 5,999 included the Law that creates the Bicentennial Public Securities Exchange (Bolsa Publica de Valores Bicentenaria). The institution will be ready to operate in December, so was announced last Sunday by President Hugo Chavez. The new securities exchange will offer all the necessary services to carry out operations with securities issued by public or state-owned entities or companies, as well as by social or collective ownership companies, government joint ventures and savings funds from public entities, organized communities, autonomous institutions, private companies and mid-size and small enterprises, in order to provide them with the appropriate liquidity and financing.

Interest rate. The lending rate for the fourth week in October was at 17.1%, down by 43 base points compared to the previous week. Time deposits and savings rates were steady at 14.5% and 12.6%, respectively.

International reserves. International reserves dropped by 3.7% going from US\$29.36 billion during the first week in November to US\$28,28 billion during the second week of November. Compared to the same period last year, international reserves have dropped by 15.1%.

Monetary liquidity. Monetary liquidity for the first week in November was down by 0.2%, compared to the previous week settling at VEF 261.86 billion, up by 11.1% year to date and 17.1% in the last 12-months.

Sitme figures. To date, US\$3,839 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$218 million, US\$41 million more than last week when braided US\$277 million.





Oil Tips

Final statements submitted. Both Pdvsa and ExxonMobil submitted their final statements before the International Court of Arbitration of New York's Chamber of International Commerce, for the lawsuit presented by the Dutch-American company which has been in an arbitration process for three years for the Venezuelan Government's decision to nationalize its projects in Venezuela. ExxonMobil is demanding an indemnification for US\$7 billion from Pdvsa and Pdvsa Cerro Negro. Moreover, Pdvsa still has US\$315 million frozen in NY Bank for the Cerro Negro case, and the state-owned oil company currently has a current balance of US\$1.49 billion as a provision in case of litigations.

Marina Gas occupied. The president of Pdvsa Gas Comunal, Miguel Rodriguez, led the occupation of the facilities of Marina Gas, a liquefied-oil-gas distributor located in the Sucre Municipality of the Miranda State. Rodriguez said they reached an agreement with the company's owners to take over its operation, since it has been presenting some operational difficulties. The company has 72 employees and an operational capacity of 7,500 cylinders per day, which covers the demand of the Sucre Municipality, Guarenas, Guatire and Barlovento, while the State Company controls 50% of the natural gas market nationwide.

PDV Marina pays for malfunctioning equipment. Workers of PDV Marina in Guaraguao claim that only two of the twelve boats absorbed are operative. This was in a report prepared by the Secretary of the workers' union. They also claim that out of the three boats rented for emergency to unknown companies only one meets the sailing requirements and the tug boats Valjiria and Baru have been operating without air conditioning for three months now, and PDV Marina pays US\$9,000 to rent two more tug boats that don't work.

Pdvsa closes gas stations in Argentina. The two gas stations owned by Pdvsa in a joint venture with Enarsa (Argentine Oil Company) were closed definitely due to the lack of clients and the high rent paid by the Venezuelan oil company for these locations.

Twice as much as the estimate. The natural gas deposit to be exploited by Pdvsa along with the Spanish-Argentine company Repsol YPF contains 15 trillion cubic feet and not 8 trillion as was initially estimated, so was announced by President Hugo



Chavez. Chavez highlighted the fact that the finding of this deposit was close to the 20 trillion cubic feet of natural gas, as much as the US reserves.

Pdvsa reactivates drills. Every month, Baker Hughes reports the number of active drills. Venezuela reported a total of 82 working units, compared to 54 reported two years ago, due to its need to meet the production cuts demanded by the Organization of Petroleum Exporting Countries (OPEC). However, Pdvsa sources indicate that the number of active drills exceeds the number published by Baker Hughes, and are registered by OPEC every month

Argentines complain due to millionaire losses. According to a claim filed before a Federal Judge by the Argentine former Secretary of Energy, Alieto Guadagni, Argentina's purchase of fuel oil to Venezuela has generated losses for US\$322 million to the Argentine Government. This claim is part of a suit for licit enrichment against former president Nestor Kirchner, President Cristina Fernandez and Julio de Vido, which includes these purchases to the Venezuelan Government with no public tenders.

And yet another accident... The executive secretary of Venezuela's Single Federation of Oil Workers (Futpv), Eudis Girot, condemned a new accident occurred last Friday at Petropiar's oil upgrader causing injuries to two workers. These workers were following orders to seal a 16" pipeline in the cocker plant's furnaces. However, in the process, they both got burnt by the pressurized steams coming out of the line. One of the workers suffered from minor injuries while the other one has severe burns in 60% of his back. This happened because Petropiar's authorities did not want to stop the plant's activities.

International oil baskets. At the close of the New York market last Thursday, November 18, the WTI was at US\$81.9/bl, showing a 6.9% decrease compared to the US\$88.0/bl of the previous Thursday. The Brent decreased by 5.3% to reach US\$84.4/bl, compared to US\$89.1/bl of Thursday, November 3rd.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$79.8/bl on Friday, November 12th, up by US\$3.4 or 4.5% from the US\$76.3/bl registered the previous week. Meanwhile, the basket's annual average is at US\$70.3/bl.





Business Sector Tips

Banking activity could be declared as public utility. The banking service will be typified as a “Public Service,” granting the nature of public utility to all goods of any nature that contribute with the development of this activity, according to the law draft of Banking Sector Institutions. The text also indicates that banks will need to adapt to the socialist plans. This proposal, which will replace the General Law of Banks and was approved in first discussion, says “the architecture of the new private banking sector will be conformed,” and there will only be universal banks, micro-financial banks and currency exchange centers. Commercial banks and other types of institutions provided in the current law such as savings entities, mortgage banks and investment banks will be eliminated. According to this draft, especially commercial banks will need to face a readjustment, since in order to become a universal bank they will need to meet new requirements such as capital increases. According to numbers published by the Superintendence of Banks, there are currently eight commercial banks.

Venezuelan banking Association rules out the possibility of the sector’s nationalization. For the Venezuelan banking Association (ABV), the Banking Institution’s draft, approved in first discussion by the National Assembly (AN), does not lead the sector into nationalization. However, the representative of the private banking system, Juan Carlos Escotet, acknowledged they disagreed with part of the content of this draft, and announced those disagreements would be submitted to the Legislative Power this week. For the representative of the private banking system, what the sector needs is to “strengthen” the Superintendence of banks “so that it can have the best qualification to supervise” and for banks’ risk units to establish “consistent criteria” for granting loans and “guaranteeing the good qualification of their boards of directors,” among other aspects.

Banking sector trusts the State will pay for loans granted to expropriated companies. The debts of expropriated companies with the banking system reach approximately VEB 4.8 billion, said Juan Carlos Escotet, president of the Venezuelan Banking Association (ABV), who also acknowledged that in some cases, banks have had problems to collect, especially in situations in which the expropriation has been more complex. However, the representative of the country’s private banking system assured that they are convinced they will end up collecting said loans, since the National Government recognizes the significance of these commitments.

Change in the Law of Banks reduces the contribution of public entities to Fogade. The law draft of banking sector institutions makes adjustments to the



payment process of deposit warranties in case of financial institutions' closed-door audits or liquidations. The draft maintains deposit warranties at VEB 30,000, and, unlike the current General Law of Banks, indicates that this amount can be modified every four years. The draft reiterates that accountholders will collect delayed payment interests, and private banks' contribution to the Protection Fund will be of 0.75% of the total deposits as of the end of each semester prior to the payment's due date, and will be paid in monthly installments equivalent to 1/6 of that percentage, and the contribution of public banks to the same entity is reduced to only 0.25% of the total deposits, compared to the 0.50% established by the current law.

Banking system's total assets grew by 15% in one year. According to the latest monthly report issued by the Superintendence of Banks and other financial institutions, the Banking System's total assets as of October reached VEB 380.7 million, an increase by only 0.98% compared to the number reported in September (VEB 377.0 million). With this result, the variation rate accumulated as of October for the Banking System's total Assets reaches 9%, while the y/y rate (October 2010/ October 2009) reports a 15.1% increase.

What about the loans portfolio. The loans portfolio closed at VEB 173 million in October, showing a m/m rate of almost 6%, an accumulated growth by 11.5% in the first ten months of 2010 and a y/y growth (October 2010/October 2009) by 15.9%. The Delayed Loans Portfolio (Loans due plus loans under litigation) reported a 2.9% growth compared to the numbers shown in September (VEB 6.62 million), by reaching VEB 6.81 million in October of 2010, which generated an accumulated variation rate of 71% and a y/y rate (October 2010/October 2009) of 59.8%.

And liquid assets fall. On the other hand, liquid assets closed at VEB 80.5 million in October, showing an 8.2% decrease compared to the previous month (VEB 87.63 million), but an increase by 15% to its y/y (October 2010/October 2009) variation rate and an accumulated growth by 2.4% so far this year.

Investments in private sector securities decreased by 20% in one year. Recent numbers issued by the Superintendence of Banks indicate the banking system's investments in securities increased to VEB 95.3 billion in October, reporting an increase by only 3.6% in one year. The entity reports that investments in private sector securities decreased by 20.2% in the last twelve months, while investments in public sector securities grew by 23.5% between October 2009 and October 2010. It is worth mentioning that only one year ago private sector securities reported a 49.6% share, and now the number is 38.9%, while investments in public sector securities reaches 61%, compared to the 50.4% of share reported in the same period of 2009.





Internet service increases in Venezuela. According to the latest report issued by the National Telecommunications Commission (Conatel), internet service in Venezuela increased by 36% during the III quarter of 2010, compared to the same period of 2009, given the positive influence generated by the offering of this service by mobile telephone operators (Movilnet, Movistar and Digitel), as well as by those offering the Triple Play (Internet, Cable and Telephone service), and inter, among other factors such as Cantv's equipped internet plan, adding a total of 664,000 new clients to the national network in just one year.

... and in the field of mobile phone service. Conatel's report shows the number of subscribers decreased by 0.4% during the third quarter of 2010 compared to the same period of 2009. It is worth mentioning that this was the first time the public entity counted Blackberry phones, which added up to 1.6 million. Finally, fixed phone lines reported a 3.5% increase in new subscribers during the III quarter of 2010, while subscription television reported 9.7% more clients than in the third quarter of 2009.

"Flag" products at half mast. The National Government has tried to boost the development of national production by applying economic policies that allow the self-supply of foods and, especially, agricultural products. In this attempt to reach an endogenous development, the Administration set in two occasions the priorities for a series of products in order to boost their development. From there came the so called "flag" products: rice, corn, coffee, cocoa, oil palm and double-purpose cattle (milk and beef); which were years later called strategic products. However, those efforts were not capitalized in all products, and even less were materialized, since Venezuela still has a strong dependency on the import of raw materials, even in the fields in which it use to be self-sufficient.

But the Government says it's producing more coffee. Coffee production in Venezuela has grown by 12% thanks to the agricultural policies established by the Bolivarian Government, through the Coffee Plan, which has also generated a 19% yield in this product, so was indicated by the minister of the People's Power for Agriculture and Lands (MAT), Juan Carlos Loyo.

Bartering is optional. The Organic Law draft for the Encouragement and Development of the Communal Economic System does not contemplate obligating anybody to participate in the solidarity bartering and exchange systems, for said participation needs to answer to the willingness of communities. The former was stated by the president of the National Assembly's Citizen Participation Commission, Representative Ulises Daal, when asked about the draft.

Private sector reduced. The president of Conindustria, Carlos Larrazabal, assured that in Venezuela there were *"seven thousand companies of which 58% are not in the*



capacity to invest. Only 20% is increasing production.” Larrazabal added that as of 2009, according to official numbers, at least 12 thousand small and mid-sized enterprises (PYME) were operative in Venezuela. “The installed capacity of the national industry is at 53%, but PYME’s is at 43%. This sector has reported the most job losses,” he added.

And the commercial sector can’t see the light. The president of Consecomercio, Fernando Morgado, said that by the end of 2010 the Venezuelan commercial sector would close “in the red.” He assured that there were far less Christmas products than in previous years. Morgado also talked about the crime rate and said: “according to our affiliates, this whip is still the main element influencing the deceleration of our activity.”

Even “hallacas” aren’t safe. The price of the ingredients of a homemade “hallaca” increased by 45% in private supermarkets and municipal markets according to a survey made by the newspaper *Ultimas Noticias*.

World Crisis Tips

Inflation seems to be tamed. The US Producer Price Index for finished goods increased by 0.4% for the third consecutive month. However, this record represents half of what consensus had expected. It is worth mentioning that the one responsible for this increase was the rise of energy commodity prices, since food prices went down along with price cores. In fact, excluding these products, the index actually decreased by 0.6%, the biggest fall since 2006. Energy prices increased by 3.7% this, and by 12.9% in y/y terms, boosted by a 9.8% increase in the price of gasoline, 18.1% y/y. Food reported a 0.1% fall this month, and only increased by only 3.7% compared to the same month of 2009.

Retail Spending increased. Even though consumers have had a quite cautious behavior, they were not reluctant to spend in October, since the Retail Spending indicator increased by 1.2% after having reported increased by 0.7% and 0.9% in September and August, respectively. This reading translates into a 7.3% y/y increase, a quite positive thing, considering the 6.3% fall reported in 2009. The increase in food spending was by 0.3% and reached 4.3% y/y.





Inventories keep growing. US companies' inventories show an increasing trend. In September (latest figures available), they reported a 0.9% increase, after having shown an increase of the same magnitude in August. Digging deeper into the indicator we can see how inventories have increased by 6.3% in y/y terms. This increase in inventories is mainly boosted by the growth experienced by wholesalers, with high variations by 1.5% and 1.2% in the last few months, reaching y/y variations of 7.9%.

Commodities seem unstoppable. The price of commodities gets stronger by the day. The price of gold already reached US\$1,400 per ounce in November, reaching an increase by over 25.0%, after having shown a similar increase in 2009. Meanwhile, silver prices have also gained strength, reporting a 33.0% increase in the last twelve months, after having grown by 66.0% in the previous twelve months. Finally, it is worth mentioning that the increase of oil prices has also been impressive, reaching levels of up to US\$88 per barrel, when 2009's average was US\$62 per barrel. This is all the result of the strengthening of emerging economies, especially China, Australia and India.

EU trade balance recovers. After having reported a deficit by EUR1.68 billion in August, the European Union reached a surplus by EUR2.42 billion in September. The positive balance was a product of an increase in exports by 0.6% and a decrease in imports by 2.5%. In the three-month indicator, the trade balance shows a surplus by EUR3.24 billion. However, six and twelve-month indicators have reported deficits by EUR577 million and EUR3 million, respectively, which shows a significant improvement in the last months.

The reasons for this improvement. This improvement in the EU trade balance is the product of a fall in imports more than of an increase in exports, since the latter have also been decreasing. However, the deceleration of imports is higher, reporting y/y variations in twelve and six-month indicators by 21.6% and 6.9%, after having reported a fall in the three-month indicator by 8.4%, while in the same order, the variation for exports has been with increases by 22.4%, 10.4% and 2.9%.

Europe grows. The European Union's growth figures show a 1.5% q/q growth for the third quarter of 2010, even though Holland and Greece showed decreased by 0.4% and 4.4%. In the y/y indicator, the up variation was by 1.9% for the European Union and 1.9% for Holland. However, for Greece, the record is once again negative, with a fall by 4.5%. The European Union has been driven by Germany, France and the United Kingdom, which grew by 2.8%, 1.4% and 3.3%, respectively.





Political Tips

It was written. The parliament approved the National Financial System Law, the Insurance Activity Law and the Securities Exchange Law, reformed the Law of the Central Bank of Venezuela and is currently discussing the Law of Banking Sector Institutions, and all five texts are ordered to comply with the socialist plans. The draft to reform the Constitution of 2007 said *“the banking system must establish new purposes that make the banking policies and the destination of loans compatible with the plans of the productive economy.”* Part of this excerpt is in the National Financial System Law, which in its exposition of motives, indicates that all institutions in the sector *“need to collaborate with the sectors of the productive, popular and communal economy.”* This is developed in the Law of Banking Sector Institutions’ draft which obligates banks to destine part of their earnings to communal councils, and the Insurance Activity Law establishes products to cover community risks.

Everyone in tune with the socialist project. The proposal to modify the constitution stated the coordination between regulating entities and that line is developed in the Financial System Law with the creation of an organization to coordinate regulating entities. The socialist system foresees changes in the activity of the Central Bank. The constitution draft of 2007 said the entity should deepen the new financial architecture and adapt its *“structure to the new productive model.”* The latest reform to the BCV Law says the entity’s policies are to be aligned with the nation’s plan and adds that *“all changes must be seen as a reform of the financial system and an opportunity to tune up the entity’s role in the transformation process of the social-productive model.”*

“Unjustified protest.” The minister of the People’s Power for Transportation and Communications, Francisco Garces, said the protest made by the 33 people in el Metro de Caracas was unjustified. He also acknowledged the system had presented malfunctions but insisted that *“no user distress justifies the alleged hijacking of two trains.”* He warned that *“anyone who interrupts the service deliberately, thus damaging the free circulation of users, shall receive the police response the case calls for”.* The director of the National Bolivarian Police Department (PNB), Sheriff Luis Fernandez, condemned the fact that the protest of last Friday by a group of Metro users *“had political intentions to create chaos and disregard the National Administration’s efforts to improve the service.”*

Profit share and Christmas bonuses in installments? Early this month the Government announced that public sector workers would receive the three months of salary corresponding to their profit share or Christmas bonuses in three installments,



as opposed to the single payment or two-installment method used in previous years when they received their bonuses within the first fifteen days of November and December. The Communist Party of Venezuela (PCV), an ally of the United Socialist Party of Venezuela (PSUV) led by President Hugo Chavez, issued statements about this fact and asked the Government to explain why they had decided to pay profit share and Christmas bonuses in parts. *“By not explaining this situation with enough detail, we allow opposition sectors to manipulate in order to destabilize the Government,”* plus, *“it’s in the workers’ right to know the reason for this decision,”* said Oscar Figuera, Secretary General of PCV in a press conference.

Is the strategy working? After the expropriation of six housing complexes and the temporary occupation of another eight by the National Government, the institute for the Defense of People in the Access to Goods and Services (Indepabis) has received over 4,500 complains of real estate frauds all over the country, said the minister of Commerce, Richard Canan, and broadcasted AVN. *“The middle class is filing claims at Indepabis’ offices all over the country. We will continue to guarantee the owners’ rights,”* said Canan.

Pursued... The Public Ministry (MP) has requested the nation’s control courts to execute 93 real and personal measures against those who are allegedly linked to the frauds in the sale of real estate properties through pre-sale agreements. Thus was informed by the Attorney General, Luisa Ortega Diaz, who said these legal actions were: prohibition to leave the country, deprivation from freedom, freezing of bank accounts of construction companies and real estate promoters, prohibition to trade and mortgage assets.

December 5 in sight. The National Electoral Council (CNE) started this week to authorize the election witnesses that will participate in the upcoming election of December 5. After summoning all political actors to present their electoral witnesses in each one of the CNE regional offices last Friday, the main rector of CNE, Tania D’Amelio, informed that over 1,600,000 Venezuelans had been summoned for this election for Governor of Amazonas and Guarico and 11 Mayors of several municipalities throughout the country.

Authoritarianism and violation of human rights. Socialist International (SI) authorized a report regarding Venezuela’s political reality prepared by a special commission that visited Caracas in January of this year concluding that the Venezuelan democracy was threatened by authoritarianism and that there was a reiterated violation of human rights, especially with political prisoners.

Jaua criticized the participation of the Federal Government Council. After the Governor of the Carabobo State, Henrique Salas Feo, condemned in his Twitter the



State's refusal to discuss this issue in the Federal Government Council, Elias Jaua, vice president of Venezuela, said that constitutional allocation discussions were not of the Federal Government Council's competence, but of the National Assembly: "Governor offices have increased and improved their budgets by 21%," and added that "it's our instruction from President Chavez to collaborate with these entities, as well as with Mayor offices, so that they can honor their salary commitments with their workers."

Opposition to have a strong presence. The report gathers the opinions of different sectors of our society, except the official position because the Government refused to meet with the commission. A delegation led by representatives of the political parties AD, MAS, Podemos and ABP, in a meeting of the coalition to be held in Paris this week, will state its disagreement with the recent statements issued by General Henry Rangel Silva, supported by the president of Venezuela, reiterating the Government's antidemocratic and pro-coup nature.

Will Mayors be eliminated? The Mayor of Baruta, Gerardo Blyde, said the approval of five law drafts by the National Assembly before the end of 2010 was looking to create a parallel communal state with the purpose of destroying mayor and governor offices, just like Aristobulo Isturiz, PSUV representative, once announced. Blyde added that with the effect of these laws, "even socialist mayors would disappear unless there was a citizen's resistance, which is currently stipulated in 11 municipalities with the election on December 5 of mayors defending decentralization, budget allocations and who are associated with democratic mayors, in order to continue fighting for decentralization."

Chavez: "Venezuela is an oil power." During the ceremony to grant the International award to Critical Thinking Libertador, President Hugo Chavez said that Venezuela was preparing to become the world's source of energy supply, making reference to the Orinoco Oil belt, the world's largest reserve of liquid hydrocarbons, with approximately 513 billion barrels of oil. Chavez also assured that oil played a very important role in Venezuela's integral diplomacy, but that this resource would never be used as a disturbing element or with imperialist purposes, but that "this wealth will be to pay the great historical debt accumulated. We will share our wealth with other countries, and will use it fraternally."





ECONOMIC OVERVIEW

