



Weekly Report

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*Currency devaluation in 2011:
Can't be ruled out*

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The Christmas season is almost upon us, and in Venezuela it has become a tradition that with it comes a new wave of rumors and innuendo all pointing to a devaluation of the official exchange rate. This year is no exception. And this year, the subject of devaluation has become a focal point which has divided the Economic Cabinet.

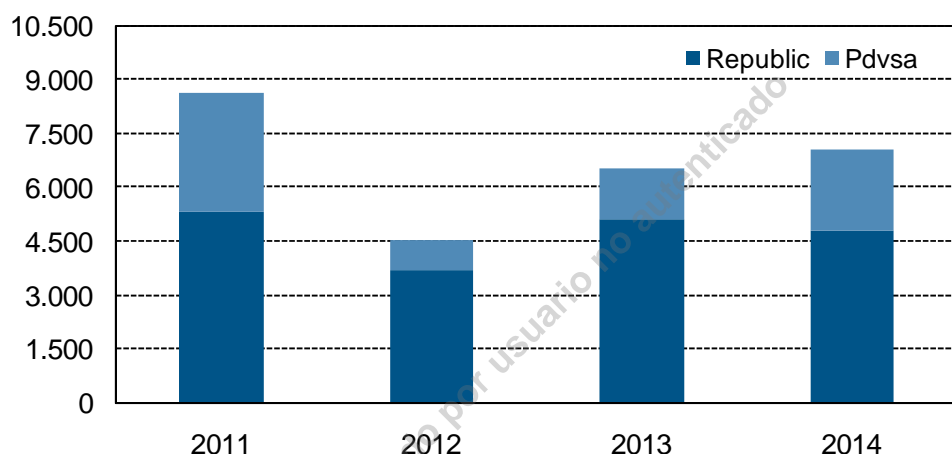
First things first: More bonds coming

In 2010, despite the elimination of the swap-market, the Administration has continued with its debt issuance policy as a means of supplying much needed and hard to come by foreign currency to the private sector. The way things stand, it looks like in 2011, things will remain the same, and bond issuances will continue to feed the exchange market.

In 2011, the Administration as well as PDVSA will need to continue to make foreign debt bond issuances in order to finance their operations. With respect to the Republic, we estimate that the deficit in 2011 will be at around 4.1% of GDP, in other words, US\$11.24 billion of which US\$4.0 or US\$5.0 billion will be financed through sovereign bond issuances.



External Debt Service of the Republic and Pdvsa* (US\$ Millions)



Sources: Pdvsa and Ecoanalítica

* Ignores the potential private placement of U.S. \$ 3,000 million 2017 bond

And PDVSA will follow suit

PDVSA's need for financing is even more serious than the Administration's, because despite relatively high oil prices, and the positive international outlook for the future in this market, PDVSA's oil production has been dropping for the last three years. The Administration is very aware of this fact and on how dependent it has become on oil prices, so PDVSA has planned to invest US\$42.0 billion a year over the next five years in order to improve oil production. Though where the company is going to get such an amount is not clear and does not seem plausible.

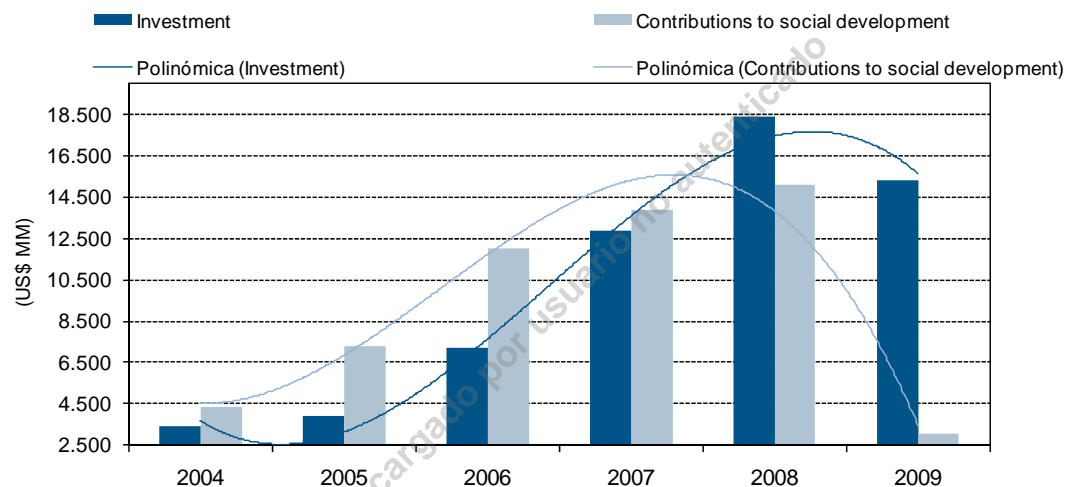
US\$ 5.0 billion more

The pressure the Administration is putting on PDVSA has been, and continues to be, very significant, as can be seen in the following graph by the amounts that PDVSA has had to invest and contribute to social development during the last few years. Notice how between 2004 and 2007, contributions to social development were higher than investments in the company (oil industry). This is very critical to PDVSA and goes against the sustainability of its own business interests. As of 2008, this tendency has changed and investments have been made more along the lines of preserving and improving oil business interests. But these types of investment are long term, often taken at least three years before results are felt, and especially when talking about increasing oil production. In Venezuela's case, with many of its wells being old, requiring a lot of



investment just to keep the natural drop in production at bay, production improvement could take much longer. With this in mind, at **Ecoanalítica**, we expect PDVSA to issue about US\$5.0 billion in foreign bonds in 2011.

Pdvsa's investments Vs. Contributions to social development



Sources: Pdvsa and Ecoanalítica

And the failure of the bond exchange backs this up

Something to keep in mind is how poorly the 2011 Petrobonos bond exchange idea worked out. PDVSA has informed that at the expiration date of the exchange period of the 2011 Petrobonos (cero coupon, maturing on July 10, 2011) for the new 2013 Petrobonos (semester coupon 8% yearly), 18.33% of the total amount of 2011 Petrobonos (equaling US\$549.9 million) were exchanged, leading to US\$618.6 million of the new 2013 PDVSA bonds entering circulation, due to the 112.5% exchange factor; consequently, this leaves US\$2.45 billion 2011 Petrobonos still in circulation.

And before talking about devaluation... What's going to happen to the SITME?

Another issue that's going to play a significant role in the 2011 Venezuelan exchange market is the SITME and the changes being considered to be implemented. In order for this system to be sustainable and insure a sufficient amount of foreign currency in the market, at **Ecoanalítica**, we believe that it is absolutely necessary for PDVSA and FONDEN to begin to play a role in the system, directly supplying it with foreign currency. And, according to the information that we have been able to gather, both PDVSA and the Central Bank of Venezuelan (BCV) have been considering this option.



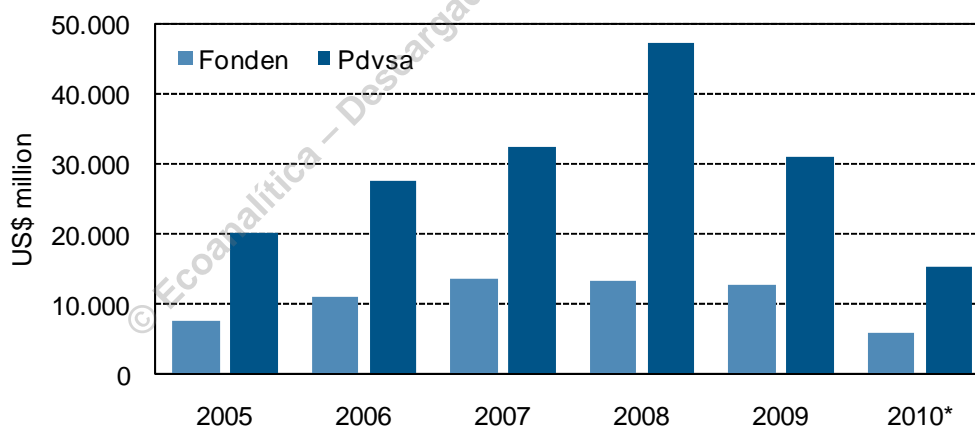


PDVSA would do well to consider it...

In our opinion, it wasn't only the private sector that suffered when the Administration shutdown the swap-market, but PDVSA has also suffered from it. In 2009, PDVSA exchanged more than US\$11.0 billion via the swap-market.

Furthermore, as we have mentioned in other Reports, PDVSA only turns over a portion of the total amount of foreign currency that comes into its coffers to the BCV. According to BCV figures, between January and September, PDVSA turned over the equivalent of 74.4% of its total revenues from oil exports to the BCV. This being the case, PDVSA needs a legal framework that will allow it to sell its foreign currency surplus in an alternative market, as it used to do in the past when it was selling it in the swap-market.

Pdvsa and Fonden currency stock



Sources: BCV, Ministry of Finance and Ecoanalítica

*2010 Only first half of the year

Since the swap-market was shutdown, PDVSA's cash flow in bolivars has suffered substantially and more so with the implementation of the SITME system. This is the main reason we believe that PDVSA will become a supplier for the SITME in 2011.

... And the private sector would be grateful, if this increased the supply of foreign currency

At *Ecoanalítica*, we estimate that in 2011, PDVSA could channel up to US\$4.0 billion through the SITME, and that FONDEN could do the same with another US\$4.0 billion; and state-run companies such as CANTV could supply the system with another US\$1.0 billion and the private export sector with another US\$400 million.



Add on to this the part of the bond issuances that the public banking system has been acquiring, which could be around US\$2.5 billion, and what's left of the stock of bonds in hands of the financial system that by the close of the year should be at US\$2.0 billion, according to our calculations. With all this we'd have a total supply of foreign currency for the SITME for 2011 of around US\$13.90 billion, which divided into the 52 weeks of the year would increase the SITME's average weekly supply of foreign currency being offered to approximately US\$267 million. And this is without including what may come SITME's way via the sovereign bond or PDVSA bond issuances that we described here earlier.

Currency supply for 2011 (US\$ million)

Pdvsa	4,000
Fonden	4,000
Other public organisms	1,000
Private exports	400
Public banks bonds	2,500
Remaning bons of the FS	2,000
Total	13,900

Source: Ecoanalitica

The crux of the matter is: CADIVI's different exchange rates

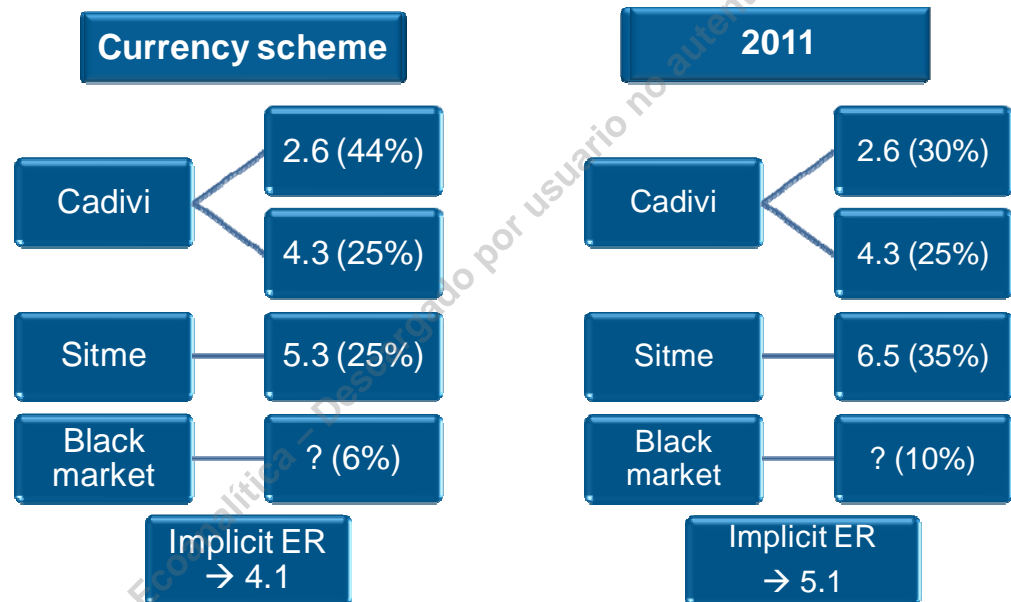
With respect to the devaluation of the currency, the Administration still hasn't made up its mind yet. On the one hand, there are sectors that insist that CADIVI's different exchange rates must be maintained. Minister Jorge Giordani is one of those in agreement with this idea. On the other hand, there are other sectors that believe that the devaluation of the currency should be across the board. The president of the BCV is in agreement with this idea. Both sectors agree that the SITME system exchange rate has to be adjusted, so the devaluation of this exchange rate is a sure thing.

Giordani stance: the politically correct devaluation

According to Minister Giordani's team and followers, with the current economic conditions that exist and taking into account that the supply of foreign currency offered via SITME system will be increased, the Administration doesn't need to devalue CADIVI's exchange rates during 2011. The main reason Giordani doesn't want to devalue CADIVI exchange rates is because he fears it will have a severe impact on inflation for the coming year considering that all of the Administration's subsidy policies and programs are tied to the VEB2.6/US\$ CADIVI exchange rate.



However, the Minister's own proposal highlights that the amount of foreign currency available at the VEB2.6/US\$ rate will be much less compared to the amount of foreign currency liquidated by SITME at the VEB4.3/US\$ exchange rate, making the new system play a larger role with respect to imports. And lastly, but not less important, it's expected that the SITME exchange rate will be devalued to VEB6.5/US\$, an adjustment that will not be so costly politically, and it will significantly benefit PDVSA's financial situation in bolivars when it becomes a regular supplier in this market.



Source: Ecoanalitica

Merentes stance: Devaluation across the board

The president of the BCV, Merentes, and his team and followers believe that the devaluation should be across the board and they do not believe that this will have such a significant impact on inflation as does Minister Giordani and his team. As evidence, they point to 2010, and the devaluation which took place in January and how the inflation rate remained relatively stable. If a devaluation were carried out across the board, and the supply of foreign currency to the SITME increased, three benefits would be gained: the Administration's as well as PDVSA's cash flow will improve; there will be a greater supply of foreign currency available for the private sector; the Administration's overall fiscal situation will be much more comfortable heading into 2012.

In this case, the devaluation proposed will be of 19.2% for the priority exchange, going from VEB2.6/US\$ to VEB3.10/US\$; of 25% for the so-





called petro-dollar exchange rate, going from VEB3.4/US\$ to VEB5.4/US\$. The SITME exchange rate would be adjusted by 30% and settler at VEB6.9/US\$.

The political situation: The final decision

It's quite clear that the decision to devalue or not is a political decision and that the final decision will be made by President Chávez. In the middle of this, Minister Giordani is a key figure and a great influence, even over Merentes. But, there are rumors that Minister Giordani could be leaving the Economic Cabinet. If this were to happen, then it would be easy for Merentes to sell his idea of an across the board devaluation.

At *Ecoanalítica*, we believe that the Administration could opt for a middle-of-the-road solution, keeping the priority exchange rate intact at VEB2.6/US\$ and adjust the other two. You must consider two things in the analysis: it's a fact and done deal that the SITME rate will be adjusted; and from a political point of view, it's more of an advantage to devalue the currency in 2011 than in 2012.

The adjustment will always come...

We would also like to add that if the devaluation were to take place, it would be at the Administration's discretion; and that given the volatility that the Venezuelan economy is usually subject to, mainly reflected in its exchange rate, it seems irrelevant to debate whether the devaluation will be of 25% across the board in 2011, or if policymakers decide to freeze exchange rates nominally until 2012. The only difference between both scenarios is that in the second option the distortions in the exchange controls will become much worse and the need for a future devaluation will become more pressing.

The adjustment will always come...

In summary, even though the Administration doesn't know exactly what it wants to do with regard to the devaluation, exchange market distortions make it imperative that companies design aggressive coverage strategies in order to be prepared in case of a devaluation of the official exchange rates; or in the worst case scenario, that your company for one reason or another becomes ineligible to receive priority exchange rate foreign currency from CADIVI.

We must mention that the Administration is able to maintain the exchange control exactly as it is, but it's its own incompetence that has magnified the exchange distortions. As long as gaps exist in the different exchange rates and the market feels that it can always buy cheap US-dollars, there will always be more possibilities of problems. Exchange controls are a source of



corruption and the incentive to misuse the system increases as exchange differentials widen.

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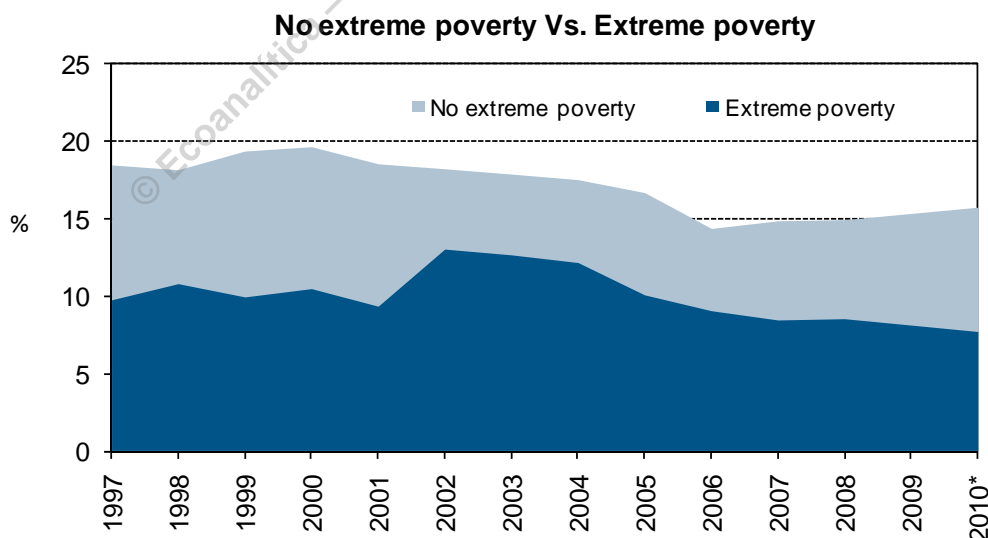




Economic Tips

23.5% of Venezuelan families have unsatisfied basic needs. According to numbers provided by the National Institute of Statistics (INE), as of the end of the first semester of 2010, 23.5% of Venezuelan families had unsatisfied basic needs (NBI), that is, 1,601,659 households, out of which 1,073,606 are in the “poverty” category (15.7% of the total Venezuelan households), while 528,053 are in the “extreme poverty” category (7.7%). The following graph illustrates how the INE poverty figures have evolved in terms of NBI.

Under precarious conditions. Also as of the end of the first semester of 2010, 447,018 families were living in poor-condition housing units, that is, 6.5% of all Venezuelan households; the same percentage reported a year earlier by INE, and 11.6% of families live in homes that are not connected to sewer systems or pipelines, so they don't have bathrooms connected to septic tanks or drainage systems. This is 0.6 percent points higher than the proportion measured after the first semester of 2009.



*First semester 2010
Sources: INE and BCV

Chronic poverty increased. INE numbers for the first semester of 2010 reveal that chronic poverty increased by 0.2 percent points compared to the first semester of



2009, reaching 11.6%. According to these numbers, 771,131 Venezuelan households comprise the hard social exclusion core, that is, they are part of the population that can't overcome their poverty situation even with the direct attention received from the State. The percentage of families below the line of poverty.

Public imports increase by 47% while private imports contract by 22%. According to the information released by the BCV yesterday, private sector imports reported a fall by 21.8% going from US\$22.9 billion during the first three quarters of 2009 to US\$17.9 billion between January and September of this year. Meanwhile, public sector imports increased from US\$3.9 billion to US\$5.4 billion during the same period, a 47% increase that wasn't enough to compensate the contraction of private imports, since adding up both categories we can observe a fall by 8.6% in imports.

BCV transferred an additional US\$500 million to Fonden. On November 12 and 18, the Central Bank of Venezuela (BCV) made transfers for US\$250 million from the international reserves to Fonden. As of the end of 2009, the international reserves were above US\$35 billion, US\$7 billion over the optimum level established at US\$28 billion. So far in 2010, the BCV has transferred a total of US\$6.5 billion to Fonden, so an additional transfer for US\$500 million is to be expected before the end of 2010. With this last transfer, the BCV contribution to Fonden since 2005 accumulates US\$37 billion.

Ministry of Finance talks about the Indebtedness Law. The vice minister of Finance, Gustavo Hernández, said during his appearance at the Finance Commission, the authority in charge of reviewing both the 2011 Budget Law draft and the Indebtedness Law of 2011, that the ministry was planning to expand the resources for different projects by 2011. He explained that VEB 9.6 billion would be disbursed in 2011, representing a 95% increase to what was projected for 2010, when they assigned VEB 4.9 billion for the Indebtedness Law (Umbrella Law).

Interest rate. The lending rate for the second week in November was at 1.5%, down by 1,4 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 increased 3.1% going from US\$28.28 billion during the second week in November to US\$29,16 billion during the third week of November. Compared to the same period last year, international reserves have dropped by 13.3%.

Monetary liquidity. Monetary liquidity for the second week in November was up by 0.74%, compared to the previous week settling at VEF 263,79 billion.



Sitme figures. To date, US\$3,945 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\$199,3 million, US\$19.1 million less than last week when braided US\$218 million.

Oil Tips

According to Pdvsa, there are 220 active drills. Eulogio Delpino, Pdvsa's vice president of exploration and production, said in a press release that Venezuela currently had 220 active drills, a higher number than the 208 drills reported in the company's financial and operational report of 2009. He also said that the state oil company had fifteen more drills ready to begin service soon. These numbers announced by Pdvsa are different from the numbers reported by the International Energy Agency (IEA) and the Organization of Petroleum Exporting Countries (OPEC), of which Pdvsa is a member.

They explained the difference. OPEC reports show information provided by the Baker Hughes organization. However, Eulogio Delpino, Pdvsa's vice president of exploration and production, said that firm only considers units that operate for two weeks in one month, but does not count the drills that are finishing a well over a month or the ones operating in the Orinoco oil belt, where crude oil is extra heavy and labors are performed in one to three weeks. Pdvsa's representative said *"their indicator is only good to be used as usually, to manipulate the information reported by our national company."*

En even tighter control is possible. There is a high chance of the State increasing its control over the oil and natural gas activity, with the inclusion of the Organic Law for the Protection of the National Hydrocarbon Sector, which includes a provision to declare it as public interest and public or social utility. This new law, currently under discussion at the National Assembly, might be authorized before the end of this year.

Control extended. Another pinpointed aspect is that it defines as oil operation *"any and all activities developed by natural or legal entities, either public or private, that is related to the exploration, exploitation, transportation, storing, upgrading, refining, liquefaction, distribution and commercialization processes of liquid or gaseous hydrocarbons,"* including, *"the transportation of people, goods, tools and/or other work implements in national territory, destined to the activities of exploration, exploitation,*



transportation, storing, upgrading, refining and liquefaction of liquid or gaseous hydrocarbons.”

How would the measure be applied? The Organic Law for the Protection of the National Hydrocarbons Sector indicates that the reasons to apply these measures are related to *“based reasons to fear for the shutdown of oil or gas operations, or in the existence of facts affecting its continuity”* the Government will proclaim an *“occupational alert”* to then declare a measure of safeguarding, assurance, inspection or expropriation.

Looking to triple production. The French company Total said their goal was to increase the production of natural gas in the Yucal-EI Placer field, in Guarico State. Currently, production reaches approximately 100 million cubic feet per day and Total hopes this number increases to 300 million cubic feet per day with a project called “Phase 300” to be concluded in 2015. However, Karim Chaouche, vice president of Gas and Development of Total Venezuela, said this project was not yet approved by the Government, something that might delay its completion.

A significant investment. Total’s investment in the project would reach US\$1 billion and it would use a technology developed by them to re-inject carbon dioxide to the well, besides treating it while the gas is being extracted, in order to reduce this component’s polluting emissions. The Yucal-EI Placer field holds reserves for 2.1 billion cubic feet of dry gas.

Agreement signed between Pdvsa and ENI. Pdvsa signed an agreement with the Italian ENI to build a refinery capable of processing 240,000 b/d of heavy crude oil. The new refinery is to be installed in the Oil and Petrochemical Industrial Complex General Jose Antonio Anzoátegui (north-eastern Venezuela), and will process crude oil extracted from block Junin 5 of the Orinoco oil belt. The new plant will turn 240,000 b/d of heavy crude oil into light crude oil and 110,000 b/d of other crude oils into diesel to be exported to the European market. This initiative is the result of an agreement signed on December 28 of 2009 between Pdvsa and ENI to conjointly develop a lot of 424 square kilometers in block Junin 5 of the Orinoco oil belt.

Agreement with Glencore. Looking to facilitate the delivery of crude oil to Belarus, Pdvsa and the world’s largest raw materials intermediary, Glencore, signed an agreement in which the latter must deliver Urals crude oil in the Black Sea to be unloaded in the port of Yuzhny in Ukraine to then be driven through a pipeline to Belarus, in exchange for the Venezuelan oil company’s delivering Santa Barbara crude oil. This agreement arose from Belarus’ need to reduce costs. Also, Pdvsa signed a Memo of Understanding with Belgaztrov, from Belarus, to create a joint venture for national gasification.



Gasoline prices increase. The price of gasoline reported increases for the third consecutive week, rising by nearly 3 cents per gallon the last week, to reach a price of US\$2.9 per gallon, 26 cents more than one year ago. As to diesel fuel, the price increased by 6 cents last week, to reach US\$3.2 per gallon, 39 cents more than one year ago. These constant increases are a product of the sustained increasing trend oil prices continue to report.

International oil baskets. At the close of the New York market last Thursday, November 25, the WTI was at US\$83.3/bl, showing a 1.7% increase compared to the US\$81.9/bl of the previous Thursday. The Brent increased by 1.2% to reach US\$85.4/bl, compared to US\$84.4/bl of Thursday, November 18th.

Local oil basket price. The Venezuelan oil basket price decreased last week, to close at US\$76.1/bl on Friday, November 19th, up by US\$3.6 or 4.6% from the US\$79.8/bl registered the previous week. Meanwhile, the basket's annual average is at US\$70.4/bl.

Business Sector Tips

Commerce with China increases. INE numbers reveal that during the first three quarters of 2010, China was the country of origin of 11.1% of Venezuela's total imports, 0.8 percent points more than the proportion reported in the same period of 2009. Chinese imports reached US\$2.54 billion, that is, 16.2% less than during the first three quarters of 2009, but despite this fact, its participation increased due to the reduction of the total non-oil imports by 21.9%.

USA is still first. The United States, with 30% (3.1 percent points more than in 2009) of the origin of imports is still Venezuela's first commercial partner. The participations of Brazil, Mexico, Ecuador and Argentina also increased in terms of non-oil imports, all due to the detriment of imports from Colombia, which contracted by 70.8% going from US\$3.82 billion to US\$1.11 billion.

Payment of US\$485 million of the debt with Colombian exporters agreed. The Colombian minister of Commerce, Sergio Diaz-Granados, declared that Cadivi had authorized payments for US\$336.2 million to Colombian exporters and was currently in the process to authorize another US\$149.2 million, with which more than half the total debt will be paid up. Out of the US\$336.2 million, US\$193 million correspond to



ordinary exports, US\$75.5 million to exports under the Aladi agreement and US\$67.6 million to debts with Colombian airlines.

Global growth of the automotive industry expected. According to recent statements provided by the president of General Motors for the South American region, Jaime Adrila, emerging markets and developing countries offer a great opportunity for expansion. Based on that, the executive indicates that only for South America, the estimates aim to a growth of approximately 4% in sales for 2011, which would translate into 200,000 more vehicles to be sold compared to 2010, for a total of 5,200,000 units, that is, a growth by 200,000 units for the next year in the region, being worth noting that this expansion of the sales volume would also be accompanied by an improvement in the technological field, giving way to a new era in the automotive business.

Cadivi urges the National Administration to review current price controls. The sustained reduction of profitability caused by the Government's price controls, has pushed primary and industrial sectors into a loss situation. Pablo Baraybar, president of the Venezuelan Chamber for the Food Industry (Cavidea), said that "after 6 years (of price controls), companies need price adjustments to cover production costs and salaries. It is also necessary to generate enough profitability, and no current regulated price is enough for that.

National Assembly to review banks' operations in Sitme. The National Assembly's Finance Commission appointed a special sub-commission to investigate the operations carried out by banks in the Securities Exchange in Foreign Currency System (Sitme), due to complaints received regarding obstacles established by financial institutions to access the system, handled by the Central Bank of Venezuela (BCV).

Norpro still without executive expropriation order. Six months after the announcement of Norpro de Venezuela's nationalization, of which plant is located in the Bolivar State, the company still has not received the formal executive order of forced acquisition of goods and structures, announced by the National Administration last May 15. This company, with headquarters in the United States, in which the French company Saint Gobain participates, has 156 workers and a production capacity of 4 thousand tons per month of proppant, a conglomerate of bauxite, starch and water used in the oil industry.

Merger of electric companies could be completed in one month. The merger of the 14 electric sector companies, all affiliated to the National Electric Corporation, should be completed in approximately one month, according to the deputy commissioner of Distribution and Commercialization of Bolivar, Francisco Alarcon,



who explained that the core areas would be split into units, coordinated by commissioners and deputy commissioners. The appointed commissioners are Felix Rodriguez in the generation unit; Antonio Nacur in transmission; Joaquin Osorio in distribution and commercialization and Igor Gavidia in the National Dispatch Center. With this structure, the corresponding boards of directors and presidents of all 14 affiliates disappear.

Home construction keeps contracting. Home construction by the public and private sector faces restrictions due to the decreased investment by official entities and private companies and the failures in the supply of basic raw materials which limit the complete execution of construction labors, and for those reasons, 35% less housing units were built in 2010, compared to 2009. According to information provided by executing entities, between January and September of 2010, the number of housing solutions decreased by 57%, while public sector projects have decreased by 24%.

Owens Illinois foresees legal feud against Venezuelan Government. Owens Illinois forecasted a “long legal process” against the National Government after the Administration’s decision to expropriate the company, according to recent statements issued by Stephanie Johnston, spokeswoman for the organization, to the website foodproductiondaily.com, who assures they could eventually take legal actions but makes clear that there are still many aspects to be defined, such as the reasonable value Owens Illinois should receive for its assets, to which she added they would work towards a solution that allows the preservation of operations.

The other side of the coin. According to numbers issued by the Central bank of Venezuela, the sector reports 27 consecutive quarters with an “expanding trend.” However, sector operators assure that the difficulties in the access to foreign currency, their timely flow, and a smaller number of non-production certificate appointments, have affected the activity’s normal development, which has hampered the expansion of the existing networks to take care of the current clientele and potential users.

Wheat price increase threatens the industry. The increasing trend in the international prices of raw materials remains. In the case of wheat, the cereal’s value has increased by 40% between January and November, reaching US\$430 per ton of the raw material for the preparation of pasta, threatening the industry of wheat byproducts since both salted-bread and 80% of the production of pasta has been under price control for 20 months, which makes it unsustainable for the sector to cover raw materials costs.

Government insists in regulating urban land prices. As a strategy to solve the housing deficit, the director of the Presidential office of Especial Plans and Projects, Francisco Sesto, suggests state control to the price of urban lands, primary supplies and their industrialized components, adding to the experience in construction of a



“serious and nationalist” private sector. In the public clerk’s opinion, the state should intervene and regulate the price of urban lands in order to unleash both public and private construction forces removing all elements of speculation. He also insisted the government should keep regulating construction supplies, although several items are already under price control.

Total Oil and Gas supports plan of installing community micro-banks. The sustainable development of communities is one of the areas the French company Total oil and Gas de Venezuela promotes since the early 90s, and its labor in the communities has been gaining strength for the last seven years, when it begun working with the Rural Financing Foundation (Fundefir) to promote microfinance in communities where Total had presence due to its energy activity. From its association with Fundefir arose their support to Bankocomunales, micro-bank systems in which communities create a fund with their own money, good for financing projects presented by the system’s participants.

National Assembly discards Nationalization of the Venezuelan banking system. The vice president of the National Assembly’s Finance Commission, Simon Escalona, denied the alleged intends to nationalize the private banking system, as certain sectors have been assuring. He explained that article 8 of the Law of Financial Institutions’ draft, up for second discussion at the National Assembly’s plenary session, refers to the banking system as a public service, so the wave of rumors about nationalization makes no sense.

Ombudsman’s office requests an extension of prohibitions to banks. The Ombudsman’s office issued remarks and recommendations for the Law of Banking Sector institutions’ draft, including the extension of the prohibition to banks to make automatic charges to any kind of account, savings or checking, or financial instruments held in said entities, without the express authorization of the accountholder, especially for those accounts in which government pensions and retirement funds are deposited.

Commercial sector sales fall by 30.4% during the third quarter of 2010. According to recent statements of the president of Conseo Comercio, Fernando Morgado, sales fell by 30.4% in the third quarter of 2010, compared to the same period of 2009. In Morgado’s opinion, this confirms the sustained decrease of the commercial activity since late 2008, due to, among other factors, the legal and personal uncertainty, the violation of private property and the increasing restrictions to have a timely access to foreign currency.





World Crisis Tips

Indicators regain strength. The Conference Board's Leading Indicators Index increased by 0.5% during October, after having reported a revised increase by 0.5% in September. The annual growth rate for the last three months reached 4.8%.

Inflation reports slight increase. The low level of monetary liquidity and the weak economic growth shown by the North American economy continues to reflect in the Consumer Price Index, which reported a slight increase by 0.2% in October, after having increased by only 0.1% in September. This slight increase was even lower than consensus expectations of 0.3%, a record that would not have been surprising either. So far, the US inflation reports a price increase by 0.9%, mainly boosted by energy commodity prices.

Meanwhile, the core keeps falling. For the second consecutive month, the US inflationary core reported a fall with October's result of -0.2%. This record translates into a price increase by only 0.3% so far this year in the United States.

Delayed payment rate begins to decrease. After the delayed payment rate for mortgage loans peaked in the first quarter of 2010 with 10.1%, it has been consecutively decreasing in the subsequent months, reaching 9.1% in the third quarter of 2010. However, the number of mortgage loans fell by 0.9%. The indicator of loans delayed payment rate *subprime* keeps increasing, reaching 26.2% after reporting 25.3% and 21.9% in 2008 and 2009, respectively.

Philadelphia FED shows positive signs. The Federal Reserve Bank of Philadelphia released its regional factory activity index, reporting a significant improvement by placing the index at 22.5 points, the highest level so far this year. Analyst forecasts placed the index at 5.0 points, since the record in October was 1.0. The result is even more positive if we consider the 2009 reading was -7.6 points and -21.4 points in 2008, being the crisis lowest -40.0 points. This indicator has a 76.0% correlation with the manufacturing sector's quarterly growth indicator.

Chicago FED thinks differently. The Federal Reserve Bank of Chicago released the result of its National Activity Index reflecting the adjusted average of 85 economic activity indicators, reporting -0.28 points in October, after having reported -0.57 points in August. However, this record keeps showing that the economy has lost momentum since it has not been able to recover the positive level reported in March of this year, the only time it has reached favorable levels since 2007. The moving average value of



three months deteriorated to -0.46 points, the lowest since November of 2009. A level below -0.70 reflects an economic contraction in the United States; a zero reading represents the economy is growing at its historical rate; and during the last year there has been a 78.0% correlation with the Gross Domestic Product's real growth.

Retail sales recover. UK retail sales reported a 0.8% increase in October, a quite positive new, after having reported 0.0% and -0.4% in the previous two months, respectively. The three-month indicator shows a 1.8% increase while the six-month indicator reports a 3.1% growth and the y/y value reaches 2.6%. This shows that, just like the rest of the economies affected by the world crisis, United Kingdom retailers reported a first growth in the first quarter of the year, then weakened and now seem to be showing signs of improvement.

The aid to Ireland could end up in a fall of its credit rating. Irelands request for financial aid unleashed a series of concerns that could result in a fall of its credit rating by the different international agencies, plus the exit of the current Government and a mobilization of different multinational companies operating in the country. These fears increased with the statements issued by Moody's Department of Investment Services, in which they indicated that the safest measure is to reduce Ireland's credit level since the funding would increase the country's debt levels.

Political Tips

Government looking to grant preeminence to public health over private health. According to Rafael Rios, president of the National Assembly's Social Development Commission, the Organic Law of Health and the National Public Health System's draft is already up for second discussion. This draft looks to implement "*the Public System as the base of the health system, leaving the private system as complementary.*" Regarding insurance companies, article 76 indicates the Ministry of Health shall be consulted to regulate financed health plans and policies or insurance policies.

Rangel Silva's promotion to General in Chief published in Official Gazette. After assuring that the Armed Force was "tired" of the Bolivarian project and that they prophesized "full loyalty" to the president of Venezuela, President Chavez came out to defend him from the Council of Ministers in a national TV and radio broadcasting, announcing his promotion to General in Chief, which was published yesterday in Extraordinary Official Gazette.



Venezuela and Colombia together in the fight against drugs. Rodrigo Rivera, president of the Colombian defense board and Tareck El Aissami, Venezuelan minister of Internal Affairs and Justice, established a joint program in the fight against drug trafficking. The Colombian authority assured that both sides worked and made proposals to be subjected to consideration by presidents Chavez and Santos for approval. The proposals include the construction of an information platform to exchange data regarding exit routes of drug trafficking, as well as the smuggling of chemical precursors used in the manufacture of narcotics.

Venezuela and Ecuador to meet in December. President Hugo Chavez and his Ecuadorian homologue, Rafael Correa, will hold a meeting on December 2 in the Ecuadorian city of Salinas. Before celebrating the IX Ecuador-Venezuela Presidential Encounter, both nations' ministers of Foreign Affairs are to call a meeting in the city of Quito to go over the main issues to be treated in the bilateral agenda: security, defense, knowledge, energy matters, productivity, financial and commercial matters and social aspects.

Chavez assures they're trying to kill him. President Chavez said Guillermo Zuloaga, shareholder of Globovision, was collecting money to finance his murder, so he urged the public powers to "do something" with the entrepreneur's properties. President Chavez assured he had reliable sources regarding the existence of US\$100 million available for whoever killed him.

Makled in US custody until he is sent to Venezuela. Gabriel Silva, Colombian ambassador in the US, said that just as President Santos promised, the alleged drug dealer Walid Makled will be in US custody until he is extradited to Venezuela. Silva explained that due to "procedures and commitments," Santos had decided to privilege the transfer of Makled to Venezuela and not to the United States. In light of this, President Chavez assured that *"the United States requested the extradition of the alleged drug dealer Walid Makled, arrested in Colombia and also requested by Caracas, to attack his Government."*

No more pictures of Chavez in public works or propaganda. Decree N° 7,836 "forbidding the use of the name, image and figure of the President of the Republic for the identification, name and denomination, characterization, categorization, qualification and designation (...) of infrastructure works of any nature" was published in Official Gazette N° 39,556. According to Herbert Koeneke, professor of Political Science in Universidad Simon Bolivar (USB), Chavez *"is being preventive,"* looking to avoid the use of his name in pirate companies by flatterers.

Chavez: Victory of December 5 will be reflected in the presidential election. For President Hugo Chavez, the upcoming election of December 5 is a preview to what



will happen in the presidential election of 2012. According to Chavez, in the electoral results, the United Socialist Party of Venezuela (PSUV) will come out as winner as a *“warm-up to manufacture victory in the presidential election of 2012.”*

“Psuv must promote constructive and critical debate.” President Chavez said the national direction of the united Socialist Party of Venezuela (PSUV) *“must promote debate in a constructive, unitary and critical process to strengthen unity.”* As president of the red party, Chavez acknowledged the fact that Psuv needed to be *“a lot more”* than just a political-electoral machinery, assuring that the party needed to be a *“line-generating political school.”*

Spain: There are no political prisoners in Spain. After having started the polemic by assuring there were no political prisoners in Venezuela, the Spanish minister of Foreign Affairs, Trinidad Jimenez, ratified her opinion. Jimenez, during a new appearance before the Spanish Senate, assured: *“facts are facts.”* However, she said *“it is not of the Spanish Government’s competence to issue judgments regarding the lists of political prisoners different organizations may prepare.”*

40% salary increase to be requested for public workers. The National Federation of Public Sector Workers (Fentrasesp) will present the vice president of the republic a proposal requesting a salary increase by 40% in all degrees and steps in the public sector’s salary board. The president of the union, Franklin Rondon, said the proposal included three options: a general 40% adjustment, another one included expressing salaries in Tax Units (TU), and the third option that besides expressing salaries in Tax Units, includes the expansion of 15 degrees in the salary tabulator, which has only 8 salary degrees since 2008, and previously had 25.

Christmas bonuses will not be paid in three installments but in two. The National Administration decided to modify executive order 7,791 by which the Christmas bonuses of public workers, retirees and social security pension holders and Armed Force members would be paid in three installments. According to Official Gazette N° 39,555, Christmas bonuses, equivalent to 90 days of salary, will be paid in two installments, two thirds last November 15 and one third on December the 1st.

Venezuelans read. Minister of Culture, Farruco Sesto, said that one out of every four Venezuelans have become avid readers. He assured that the country’s editorial industry had advanced in the last few years.

No nationalization of the banking system. The vice president of the National Assembly’s Finance Commission, Representative Simon Escalona, denied the alleged intend to nationalize the private banking system, as Venezuelan opposition sectors have insisted to claim. *“The banking system will not be nationalized. That is not among*



our plans because we are convinced that the banking system is a public service and its related companies are of public utility,” he assured.

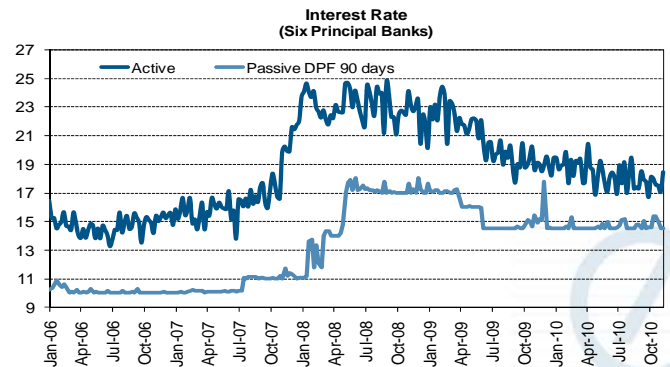
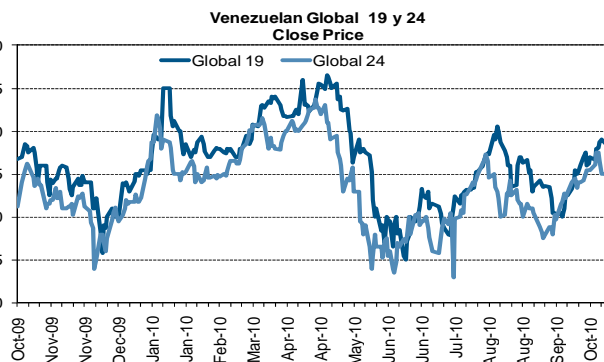
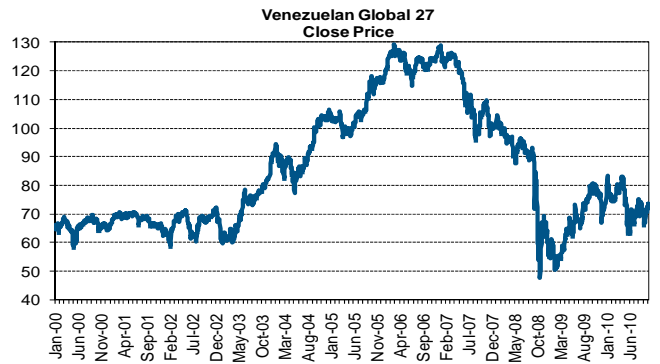
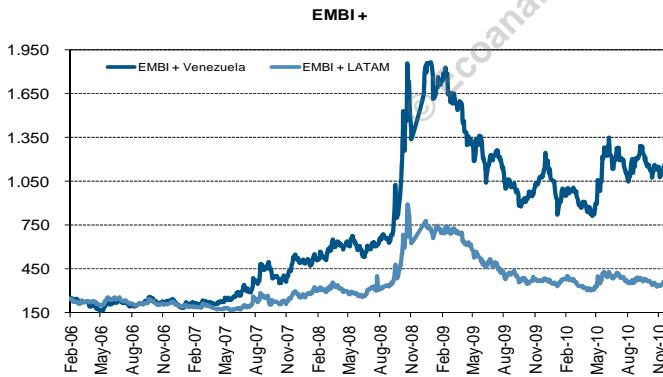
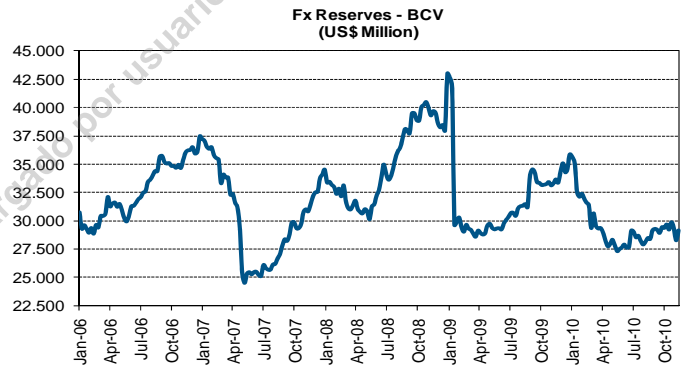
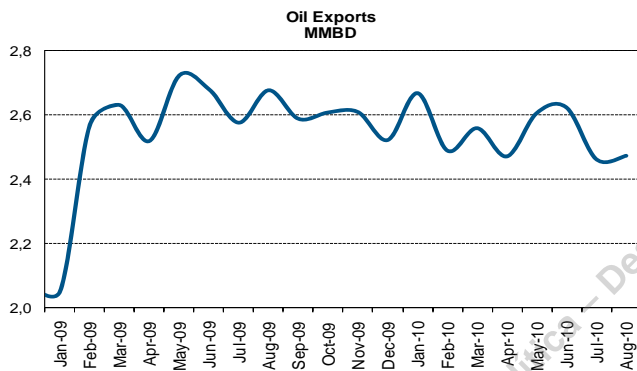
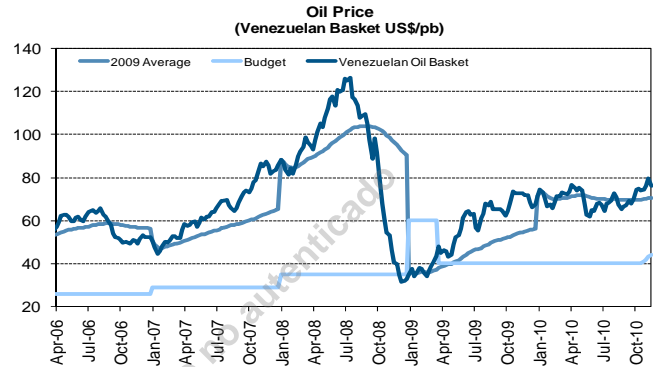
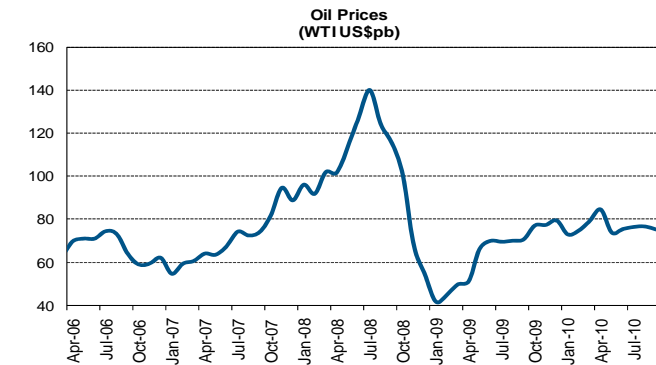
Violence is deadly. Every 15 hours a person dies of starvation in Venezuela, according to the mortality yearbook published by the Ministry of Health. The latest yearbook, corresponding to 2008 and recently released, establishes that 570 people died of starvation. 41.4% of deaths due to starvation correspond to children. The yearbook indicates that 10,487 murders and 870 suicides were reported 2 years ago. These numbers are officially recognized as violent. The number of deaths by car accident reached 7,714; by other accidents 3,171 and by other violent reasons 7,637.

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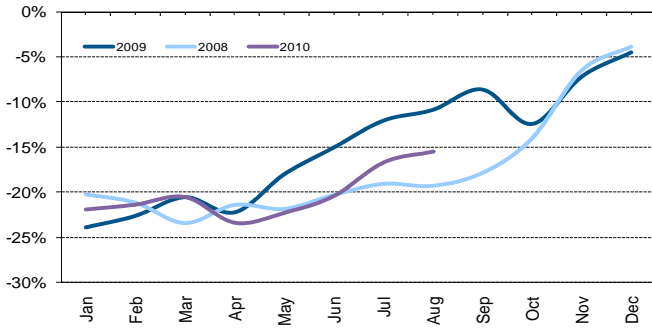


ECONOMIC OVERVIEW





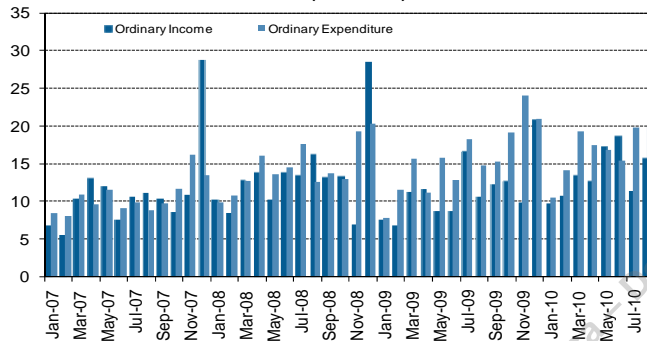
Real Expansion (M2)



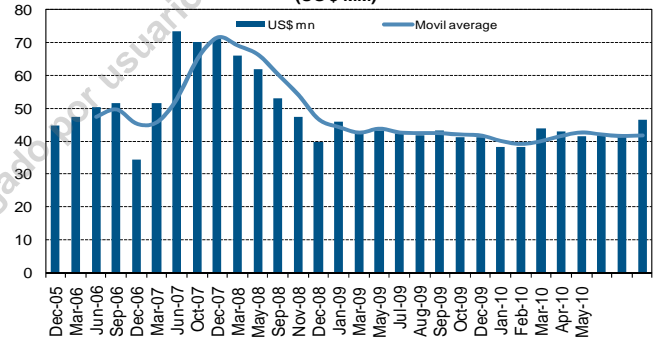
Inflation (Last 12 Months)



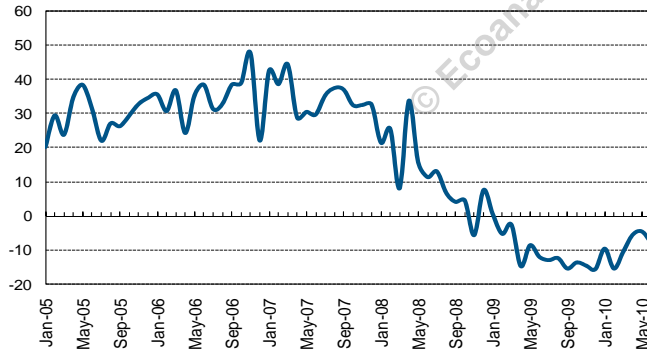
Central Government (VEB Billion)



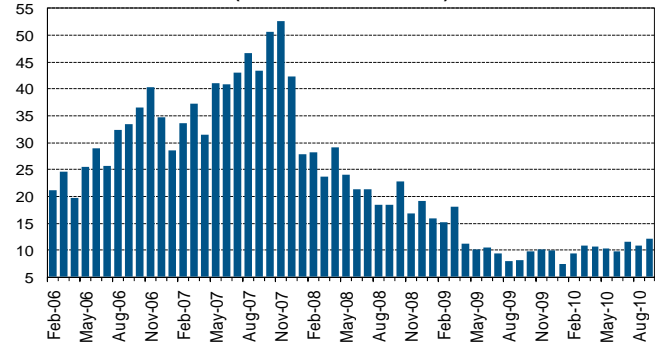
Resources of the State (US\$ MM)



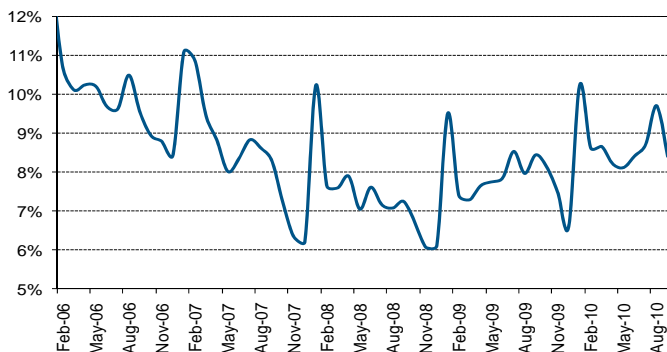
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

