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 Robert Berges
 Senior Latin America Strategist
 (1) 212 449 2477
 robert_berges@ml.com

Profiting from Transition

Adding to Venezuela

Strategy

Highlights:

Last night, Venezuela President Hugo Chavez was ousted by military leaders. Reportedly, Pedro Carmona, the head of the largest business organization is taking over as interim president until elections can be called. We expect he will announce his cabinet this weekend.

It has been a tumultuous week for Venezuela. What started as a protest by PDVSA white collar workers over the forced retirement of several executives and recent appointments to the board of director by President Chavez, reached larger levels following the confrontation tone of President Chavez and his dismissal of several company executives.

With a change in government, the odds are heavily in favor of an improvement in the economic and political situation. Economic mismanagement and the capital flight associated with it and with concerns regarding respect for private property had been the trademark of the Chavez government. The markets appear to be pricing this in, taking a favorable view, since Venezuelan spreads fell sharply and the exchange rate strengthened yesterday.

True, no visible leader of the opposition exists (yet) and the traditional political parties still lack the credibility that would allow them a central role in a new government. However, it appears unlikely that the lack of an identified leader would lead to political chaos. The growing opposition to Chavez, heightened by the events of the last days, would appear sufficient to create a minimum of unity to begin a reasonably orderly reconstruction of democratic institutions.

We believe it makes sense to add to Venezuela at this stage. We are going from no exposure to a slight overweight, financing our upgrade with cash. We are also adding CANTV (VNT, D-1-1-7, US\$14.90). We believe that a rapid resolution of what had previously been expected to be a more protracted conflict with higher and longer lasting economic (and potentially political) damage results in significant upside for Venezuela. We will examine the prospects of the country in more detail in this week's *Latam Macro Insights*.

Latin America Strategy Asset Allocation

Country	Previous Weight	Current Weight	Diff. from Previous	Diff. from Phase 1	Diff. from Phase 2
Brazil	45.3%	45.3%	0.0%	8.6%	3.3%
Venezuela	0.0%	1.0%	1.0%	0.1%	0.4%
Chile	8.1%	8.1%	0.0%	-1.7%	0.0%
Mexico	42.1%	42.1%	0.0%	-2.8%	0.0%
Colombia	0.0%	0.0%	0.0%	-0.5%	-0.4%
Argentina	0.0%	0.0%	0.0%	-2.2%	-1.7%
Peru	0.0%	0.0%	0.0%	-1.8%	-2.0%
Cash	4.5%	3.5%	-1.0%	0.5%	0.5%

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