

March 18, 2004

CANTV ADRs

Mark Twain said that there were lies, damn lies and statistics. I guess he was not aware of official exchange rates, the artificial value that governments put on their countries' currencies. George Soros was known as the man who broke the Bank of England when the UK government tried to defend the British pound. The UK joined Thailand, Brazil, Mexico, Argentina and a few others in the winless game of defending national honour and their currency's value.

How much is the Venezuelan bolivar worth? If you ask the government of Hugo Rafael Chavez Frias they will tell you, without a shadow of a doubt, that the bolivar is worth 1.920 to a US dollar. What does the rest of the world think? The free market is a wonderful mechanism in that it joins buyers and sellers and the latest transaction tells the true value of the goods or currencies exchanged.

The Venezuelan telco, CANTV, trades its shares on the Caracas bourse and it also trades American Depositary Receipts (ADRs) on the NYSE under the ticker symbol "VNT." By comparing the closing prices in Caracas and New York you can easily determine what the currency traders think the bolivar is worth in terms of the US dollar. Let's do the exercise for March 5, 2004.

According to a Reuters note, dated March 5, 2004, the shares of CANTV closed on the Caracas bourse at Bs. 9,300. According to Yahoo, the CANTV ADRs closed in NY on the same day at \$ 19.00. There are 7 CANTV shares per VNT ADR. Now for the simple arithmetic.

$$9,300 \times 7 / 19.00 = 3,426$$

Institutions as respectable as Morgan Stanley Capital International Inc. (MSCI) are using this mechanism to value the Venezuelan currency. From a [MSCI press release](#) dated November 26, 2003:

MSCI TO USE WM/REUTERS NOTIONAL EXCHANGE RATE FOR

CALCULATION OF VENEZUELA INDEX

Geneva, November 26, 2003. WM announced earlier today its decision to change its standard spot rate for the Venezuelan bolivar to a notional exchange rate based on the relationship between the price of CANTV Telefonos de Venezuela D in the local market in bolivars and the price of its ADR in US dollars. MSCI has now decided that it will use this WM/Reuters notional exchange rate to calculate the MSCI Venezuela Index starting on November 28, 2003. Please note that this announcement supercedes MSCI's announcement on November 17, 2003 regarding this subject.

WM/Reuters' notional exchange rate will be calculated using the following formula:

*Notional exchange rate = (7 * Local Price) / ADR price*

WM will calculate this rate once a day using the shares' closing prices for the previous day.

While it is illegal in Venezuela to buy or sell US dollars at Bs. 3,426 it is perfectly legal to buy CANTV shares on the Caracas bourse and pay for them in bolivars and then to sell the same shares on the NYSE for US dollars.

Who said there are no such things as fairly tales?

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