



A couple of weeks have passed since the PDVSA 2020 coupon payment date, yet the details on how to execute such payment are still being defined. As the market was waiting for more information about what would happen with this controversial payment, the average price of the Venezuelan debt (Republic and PDVSA) barely moved, closing the month of April around 30 cents on the dollar. On May 7<sup>th</sup> the National Assembly granted formal approval to pay, following recommendations of the ad hoc board of PDVSA, the Special Prosecutor and the Finance Committee of the National Assembly.

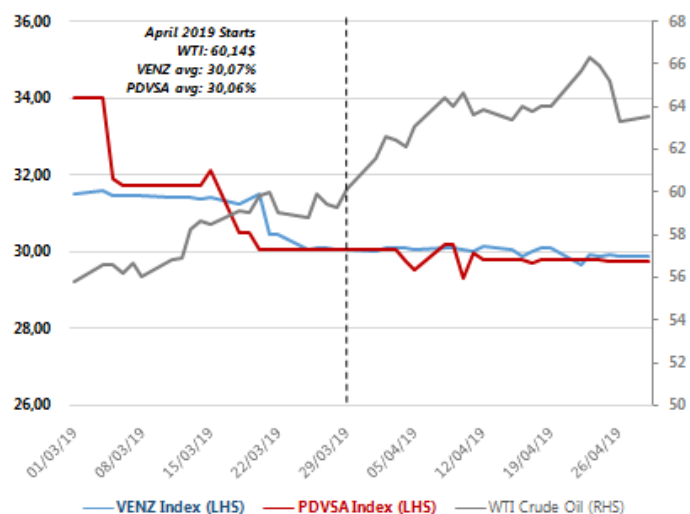


Chart N°1: VENZ/PDVSA bond indexes and oil prices, Mar-Apr 2019.  
Source: Bloomberg, Knossos Asset Management.

The funds to pay the coupon may come from the accounts of PDVSA blocked by the government of the United States, as is the case of a PDVSA account in the Federal Reserve Bank of Manhattan. Alternatively, funds may come from CITGO in the form of dividends owed to the parent company. The support and recognition Juan Guaidó and his government holds in the United States make any of these solutions achievable. The decision of the Court of Appeals of the District of Columbia on May 1st only ratifies the willingness of the US government to help protect the Venezuelans assets in its jurisdiction and to facilitate the design of mechanisms and the use of its judicial system to resolve conflicts between creditors and the interim government.

In the courts, Guaidó team has been successful in safeguarding the nation's assets. For example, they attained an appeal of the ICSID ruling in favor of ConocoPhillips and more recently a U.S. court granted a

stay for 120 days in the case started by Red Tree Investments against PDVSA requesting payment of USD 182 million, corresponding to unpaid loans that this firm acquired from General Electric. Something similar may happen with the demand of Cristallex.

Security	29/03/2019	30/04/2019	Total Return	Total Return (2019 YTD)
VENZ 13 5/8 08/15/18	31,10	31,10	0,00%	+31,53%
VENZ 7 12/01/18	28,30	28,30	0,00%	+32,41%
VENZ 7 3/4 10/13/19	28,25	28,30	+0,18%	+19,24%
VENZ 6 12/09/20	31,45	27,10	-13,83%	+17,55%
VENZ 12 3/4 08/23/22	31,05	30,25	-2,58%	+26,72%
VENZ 9 05/07/23	30,45	27,90	-8,37%	+20,95%
VENZ 8 1/4 10/13/24	31,00	28,40	-8,39%	+23,12%
VENZ 7.65 04/21/25	31,50	26,80	-14,92%	+17,21%
VENZ 11 3/4 10/21/26	31,10	31,05	-0,16%	+26,14%
VENZ 9 1/4 09/15/27	31,40	31,65	+0,80%	+36,18%
VENZ 9 1/4 05/07/28	31,15	30,65	-1,61%	+33,53%
VENZ 11.95 08/05/31	30,95	31,35	+1,29%	+33,28%
VENZ 9 3/8 01/13/34	32,45	30,20	-6,93%	+6,28%
VENZ 7 03/31/38	32,15	30,65	-4,67%	+34,76%
PDVSA 8 1/2 10/27/20	90,60	90,25	-0,39%	-3,59%
PDVSA 9 11/17/21	27,45	20,00	-27,14%	+8,62%
PDVSA 12 3/4 02/17/22	27,65	25,50	-7,78%	+32,99%
PDVSA 6 05/16/24	25,10	21,50	-14,34%	+42,94%
PDVSA 6 11/15/26	22,45	22,00	-2,00%	+46,41%
PDVSA 5 3/8 04/12/27	22,60	21,00	-7,08%	+39,28%
PDVSA 9 3/4 05/17/35	28,60	25,50	-10,84%	+33,28%
PDVSA 5 1/2 04/12/37	25,20	21,50	-14,68%	+42,56%

Table N° 1: Venezuela/PDVSA bond performance, April 2019.

Source: Bloomberg CBBT, Knossos Asset Management. \*Note: Returns were adjusted to account for the accrued interest lost, per EMTA resolutions.

In the case of bonds, other solutions may emerge to protect assets without violating the rights of creditors or suspending payments. This becomes relevant to the extent that -once the mentioned coupon payment is made- we are approaching the PDVSA 2020 amortization due next October. Some fund managers have indicated a few months ago that it would be possible to raise funds to amortize the bond by issuing debt backed by multilaterals, such as the IDB, or to get private loans guaranteed by money in US accounts. In exchange, creditors involved could enjoy preferential treatment in the restructuring process. Considering that the IDB recognizes the interim government of Guaidó, that the market is still willing to provide funds to CITGO (demonstrated by the way in which it was able to raise debt recently) and that the ad hoc board of PDVSA's is willing to protect the nation's assets, we conclude that these types of solutions can be implemented in the future.



KNOSSOS ASSET MANAGEMENT

AN AFFILIATED COMPANY OF MIURA

## Venezuela/PDVSA Monthly Report

April 2019

As a final note this month, the grace period for doing business with PDVSA in the framework of the OFAC sanctions -that were issued in January of this year- expired on April 28th. This probably will have little effect on the already weak finances of the state oil company, since business partners who were not willing to take the risk of being sanctioned by the US have already canceled their business relations with the company.

### ***The "Operation Freedom" and negotiations behind the cessation of the usurpation***

The events of April 30<sup>th</sup> seem to indicate that there are factors, currently linked to Chavismo, willing to cooperate with Juan Guaidó's team to form a transitional government. With the participation of actors such as Vladimir Padrino López (Minister of Defense) or Maikel Moreno (President of the Supreme Court of Justice) Chavismo would ensure a relevant role in the transition and we believe that involving them increases the likelihood of a regime change. Apparently, the US and the international community support and prefer this kind of solution yet as the events of April 30<sup>th</sup> also confirm, this negotiation process is extremely complex and fragile. Therefore, it can take some time to get everyone on board again to give the transition another try.

**A transitional government with factors from the Chavismo in other branches of the State -or even sharing government roles-, may not have enough willingness nor empowerment to restructure debt, which could be postponed until after new elections.** If so, the most favorable scenario for bondholders is ending this crisis with a government formed and lead completely by the opposition, and fully capable of controlling the rest of the powers of the State. Another factor that will define how much the transitional government can engage in the restructuring; will be the time it takes to hold elections and how long can the transitional government maneuver with creditors in US courts.

With a transitional government in Miraflores and if the restructuring ends up being the responsibility of the next elected government, it will be interesting to see if the US removes the prohibition on negotiating the bonds before the elections. In this case, **we will have the opportunity to see how market prices behave and what the**

**valuations tell us about the stability of the transition, the candidates that run to the presidential election and the expected recovery value of the bonds**, something we've been unable to appreciate in the last three months because the market is practically closed under current sanctions.



KNOSSOS ASSET MANAGEMENT

AN AFFILIATED COMPANY OF MIURA

**Venezuela/PDVSA Monthly Report**

**April 2019**

---

## **Credit Research and Strategy**

Sandy C. Gómez C.

+58 426 530 5104

Knossos Asset Management

---

---

### **Disclosure concerning 'Debt Research Reports'**

*This debt research report and the debt research analyst responsible for the content is not independent of the firm's proprietary trading activity and is not subject to all of the independence and disclosure standards applicable to debt research provided to retail investors. While the author believes its sources are reliable neither the author nor Knossos Asset Management represent the information to be complete or accurate. Any views expressed in this message are those of the individual sender at the time of publication and do not represent the views and strategy of Knossos Asset Management, except where the message states otherwise and the sender is authorized to state the views of such entity. This is not an offer to buy or sell, or solicitation of an offer to buy or sell the securities mentioned. The Firm may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market or otherwise and may sell to or buy from its authorized counterparties such securities on a principal basis; such transactions may be contrary to recommendations in this material. This material is intended for Institutional Use only and should not be distributed, forwarded or otherwise disseminated. Under no circumstances is this material intended for use by any retail investor. Additional information is available upon request.*

---