



Since it began with the issuance of the Executive Order N° 13.884 (E.O. N° 13.884) August has become the month that marks another breaking point for Venezuelan debt trading. Let's recall this order allows US to block all property and property interests of the Government of Venezuela under its jurisdiction, and authorize the Treasury Department to sanction additional persons who have assisted or supported the Government of Venezuela, including through the provision of goods or services.

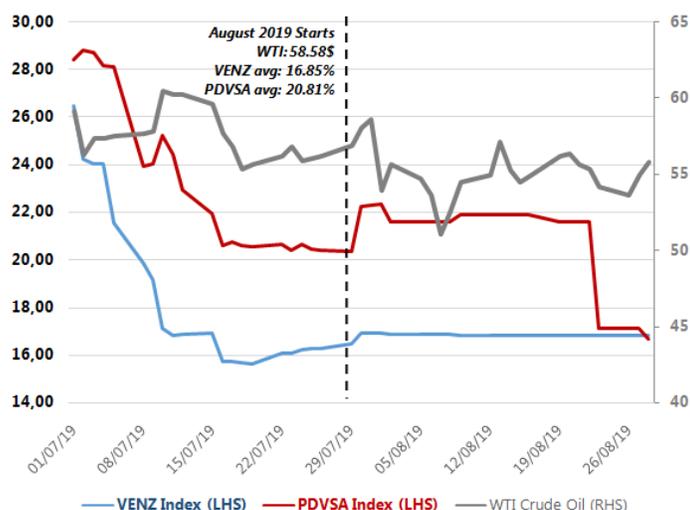


Chart N°1: VENZ/PDVSA bond indexes and oil prices, Jul-Aug 2019.
Source: Bloomberg, Knossos Asset Management.

With E.O. N° 13.884 in place and taking into account that this may prevent any creditor to seize some Venezuelan asset in the US, market has lost any hope or expectation about payments from the Venezuelan debt, including PDVSA 2020, which has a USD 913 million payment due in October. Prices of that bond plunged to 43 cents from 78 cents at the close of the previous month, now showing the worst performance YTD and sending our PDVSA Index to 16 cents levels, from 22 cents levels after it recorded an average of 21 cents during the month.

Our Venezuela Index closed the month near 17 cents, as it shows almost no changes during August. Considering the effect of rebalances due to JP Morgan weighting to zero Venezuelan debt from their indexes and the fact that E.O. N° 13.884 has a broader scope and may impact transactions outside the US, this flat line that draws the Venezuela Index shows the kind of trend we would expect to see in the following months for both indexes,

reflecting something that looks more like a market with no transactions at all.

This context has naturally posed new constrains for PDVSA. According to Reuters on September 10, CNPC has skipped Venezuelan oil loads for a second straight month, leaving Rosneft as the main trader of the Venezuelan crude. Even when it already received a warning from USA, it seems like Rosneft is willing to keep supporting Maduro regime, just in line with Moscow strategy. During their results conference call, Rosneft indicated that PDVSA has been honoring its debts, paying USD 700 million during the second quarter of the year, which may signal PDVSA may be amortizing the loan with CITGO shares as collateral.

Security	31/07/2019	31/08/2019	Total Return	Total Return (2019 YTD)
VENZ 7 3/4 10/13/19	15,70	15,55	-0,96%	-34,47%
VENZ 6 12/09/20	15,50	13,45	-13,23%	-42,01%
VENZ 12 3/4 08/23/22	15,45	14,75	-4,53%	-38,27%
VENZ 9 05/07/23	15,60	15,60	0,00%	-32,32%
VENZ 8 1/4 10/13/24	15,65	15,50	-0,96%	-32,16%
VENZ 7.65 04/21/25	15,50	15,40	-0,65%	-32,80%
VENZ 11 3/4 10/21/26	15,70	15,70	0,00%	-35,55%
VENZ 9 1/4 09/15/27	15,75	15,35	-2,54%	-33,25%
VENZ 9 1/4 05/07/28	15,70	15,70	0,00%	-31,49%
VENZ 11.95 08/05/31	15,70	15,70	0,00%	-32,91%
VENZ 9 3/8 01/13/34	15,80	15,30	-3,16%	-46,55%
VENZ 7 03/31/38	15,75	15,70	-0,32%	-30,44%
PDVSA 8 1/2 10/27/20	77,85	43,50	-44,12%	-53,54%
PDVSA 9 11/17/21	14,00	13,75	-1,79%	-25,31%
PDVSA 12 3/4 02/17/22	14,05	13,75	-2,14%	-28,27%
PDVSA 6 05/16/24	14,10	14,05	-0,35%	-6,58%
PDVSA 6 11/15/26	13,95	13,60	-2,51%	-9,52%
PDVSA 5 3/8 04/12/27	13,95	13,90	-0,36%	-7,83%
PDVSA 9 3/4 05/17/35	14,05	13,95	-0,71%	-27,08%
PDVSA 5 1/2 04/12/37	13,95	13,90	-0,36%	-7,82%

Table N° 1: Venezuela/PDVSA bond performance, August 2019.
Source: Bloomberg CBBT, Knossos Asset Management. *Note: Returns were adjusted to account for the accrued interest lost, per EMTA resolutions.

On the legal front, according Reuters on September 2nd, ICSID discounted about USD 200 million from the previous USD 8.700 compensation in favor of ConocoPhillips that was originally awarded last April. This discount of about 2% may be insignificant, but can also be read as a small victory for the interim government. Anyway in absent of cash, Guaidó team will persist with the efforts to void this judgment.

Also during August CITGO board appointed Carlos Jorda as the new CEO of the company. Jorda was chairman of CITGO Petroleum between 1999 and 2002 (the same year when PDVSA faced a severe strike) and retired from the



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company in the early 2000s. Jorda arrived just to celebrate a recent rating improve for the refinery, as Standard & Poor's (S&P), has removed CITGO Holding, Inc. and CITGO Petroleum Corporation's outlook from credit watch and has placed them on a stable outlook. While S&P has reaffirmed its long term issuer credit rating on both entities at B-; it also announced it upgraded both entities' stand-alone credit profile to BB from BB-.

PDVSA 2020 October amortization: Is there any option left on the table?

PDVSA 2020 USD 913 million payment is due in just a few weeks, and even when Attorney General Hernández said E.O. N° 13.884 would protect all Venezuelan and PDVSA assets, the market is unclear about what is going to happen. According to Hernández, Interim Government capacity and willingness to pay has reduced to zero, so this situation will necessarily lead to negotiate with bondholders, if this happens, is an event that we'll interpret as the initial stage of the restructuring process of the Venezuelan debt, even when it is going to have a very small scope, comprising only PDVSA 2020 bond.

However, the fact that the name of CITGO doesn't appear explicitly in the E.O. N° 13.884 has raised doubts about the reach of the protection it gives to this particular asset, and some think it will be needed to issue a new order to make this clear, as well as the validity of OFAC licenses issued before Guaidó appearance, that allowed bondholders to seize CITGO shares.

In the absence of any additional executive order, there are reasons to believe that a friendly negotiation is soon to begin. According to a Bloomberg News wire issued on August 29th, T. Rowe Price held meetings with Guaidó team to assess financing options for the October payment. Rowe Price stated that this is going to be possible only if there is an ease in Washington position about sanctions, but work well to send a clear signal about the willingness of a major player to help protect CITGO. T. Rowe Price together with Ashmore and Blackrock concentrate 3/5 of PDVSA 2020 outstanding notes. London based investment firm Ashmore Group Plc is the largest holder of PDVSA 2020 notes, with 51% of the outstanding, followed by Blackrock (6.5%) and then T. Rowe Price (4%).

Good faith from major bondholders seems to be aligned with the interim government intentions, as Hernández recently said they are not willing to use the sanctions as a shield to avoid their legitimate obligations, but their strategy to gain time in courts will persist. As a result, we are not very optimistic about negotiations at this moment in time, as there are no clear incentives that the interim administration can provide to bondholders. We believe that it is in bondholders' best interest not to change or renegotiate the current claim and that the most that could be done in order to accommodate some leeway is to not accelerate the bonds and give the interim government some time until a better solution is put forward.



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