



We thought that Venezuelan bonds prices had seen their lows, but the Coronavirus outbreak proved that prices could still go lower as a significant market sell off all distressed assets left investors many alternatives with better risk / return profile. The only exception was the PDVSA 2020 bond, which after hitting its lows in March, tripled its price in October when bonds were declared “valid and enforceable” by a US judge. These bonds ended the year trading around 25 cents of the dollar.

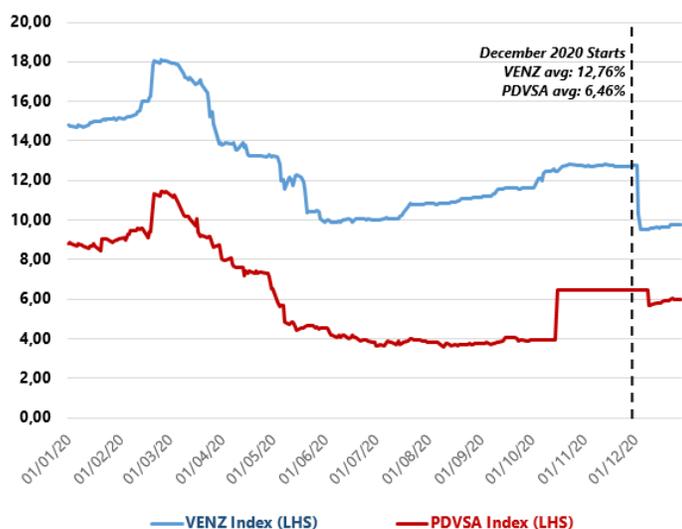


Chart N°1: VENZ/PDVSA bond indexes 2020.  
Source: Bloomberg, Knossos Asset Management.

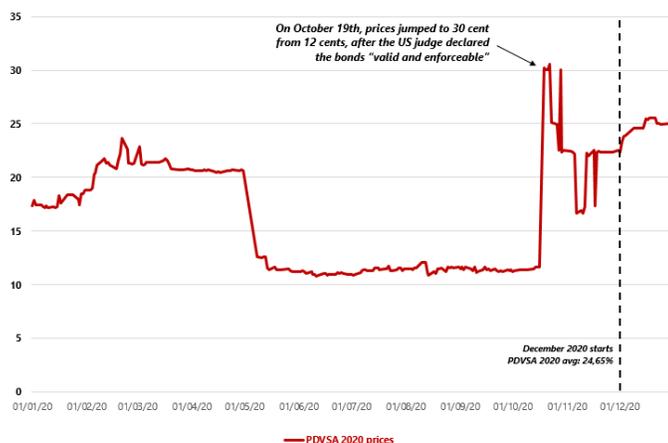


Chart N°2: PDVSA bond prices 2020.  
Source: Bloomberg, Knossos Asset Management.

Hopefully, the year 2021 will be an interesting year for Venezuelan assets. The arrival of Joe Biden to the White House opens a window of opportunity for new negotiations strategies for all players involved in the Venezuelan crisis. Outcomes of these negotiations could result in easing of restrictions on bonds trading for US

persons, licenses for oil activities, an easing of restrictions on oil trade, or an oil for food program. All these sanction “reliefs”, some easier to concede than others, would have a direct positive impact over bond prices and all other Venezuelan assets.

Security	30/11/2020	31/12/2020	Total Return	Total Return (2020 YTD)
VENZ 6 12/09/20	9,50	9,60	+1,05%	-18,70%
VENZ 12 3/4 08/23/22	9,50	9,70	+2,11%	-18,25%
VENZ 9 05/07/23	9,40	9,80	+4,26%	-17,69%
VENZ 8 1/4 10/13/24	9,50	9,80	+3,16%	-18,23%
VENZ 7.65 04/21/25	9,50	9,80	+3,16%	-14,53%
VENZ 11 3/4 10/21/26	9,35	9,80	+4,81%	-17,43%
VENZ 9 1/4 09/15/27	9,65	9,80	+1,55%	-18,78%
VENZ 9 1/4 05/07/28	9,55	9,80	+2,62%	-17,67%
VENZ 11.95 08/05/31	9,45	9,80	+3,70%	-19,18%
VENZ 9 3/8 01/13/34	9,50	9,80	+3,16%	-17,62%
VENZ 7 03/31/38	9,45	9,75	+3,17%	-18,55%
PDVSA 8 1/2 10/27/20	22,55	25,00	+10,86%	+43,91%
PDVSA 9 11/17/21	3,45	3,60	+4,35%	-55,49%
PDVSA 12 3/4 02/17/22	3,60	4,00	+11,11%	-50,88%
PDVSA 6 05/16/24	3,75	3,75	-	-53,66%
PDVSA 6 11/15/26	3,80	3,75	-1,32%	-53,07%
PDVSA 5 3/8 04/12/27	3,60	3,75	+4,17%	-50,62%
PDVSA 9 3/4 05/17/35	3,55	3,95	+11,27%	-52,20%
PDVSA 5 1/2 04/12/37	3,55	3,85	+8,45%	-51,88%

Table N° 1: Venezuela/PDVSA bond performance, December 2020.  
Source: Bloomberg CBBT, Knossos Asset Management. \*Note: Returns were adjusted to account for the accrued interest lost, per EMTA resolutions.

Furthermore, we also see the chance for the new administration to lift or ease restrictions around CITGO to bridge a solution for the bondholders of the PDVSA 2020 bonds. This would have a significant impact for PDVSA 2020 bonds but it is going to require a very fine balancing act to allow for one set of creditors to be paid and still manage to protect CITGO from all claim holders that are in line behind them.

On the local front, with the extension of the deadline to suspend the statutes of limitation of sovereign bonds, PDVSA bonds and ELECAR bonds announced on December 13<sup>th</sup>, Maduro’s regime is keeping a market friendly approach towards international bondholders. We see the recent effort to “recover” the National Assembly control as more a political move to counteract Guaidó and gain more bargaining power in future negotiations. Meanwhile, for the interim government the most significant card for negotiation purposes is still the USA government support. This translates into backing Guaidó leadership, even when his period as deputy expired and he is no longer recognized as Interim President by the European Union.



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In conclusion, we consider that the hardest sanctions are already in place, and that all actors will want to start negotiations well “behaved”. Therefore, the possibility of seeing OFAC issuing new sanctions against the country this year seems to be low and believe that risk is asymmetric at this point, tilted more towards positive surprises.



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