



Closing the first month of 2020 prices of the Venezuelan sovereign debt increased 3.5% in average. In contrast, average price of PDVSA bonds experienced virtually no changes even when PDVSA 2020 price increased 8.4%. Changes in the prices of the sovereign debt may be partially attributed to renewed hopes about the interim government capabilities to move forward in the middle of the institutional crisis affecting Venezuela, as Juan Guaidó was able to get out of the country to meet several global leaders in Europe and he even visited the White House to meet president Trump.

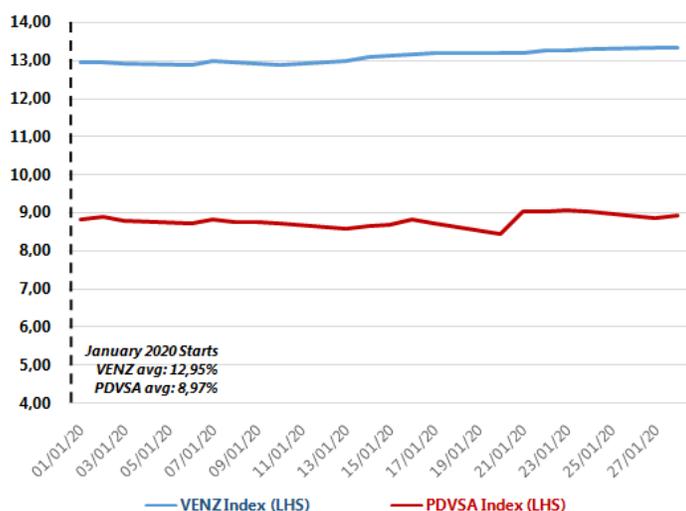


Chart N°1: VENZ/PDVSA bond indexes (Jan 2020).
Source: Bloomberg, Knossos Asset Management.

Juan Guaidó left Venezuela on January 19th and attended the World Economic Forum Annual Meeting in Davos, after visiting Colombia to meet President Ivan Duque and US Vice-president Mike Pompeo. However, the most relevant outcome of Guaidó's tour is his visit to the United States, where he attended the State of the Union Speech (SOTUS) and held a meeting with President Trump, after which President Trump reaffirmed his support to the interim government. These actions may be positive in terms of popularity for the Guaidó Administration that needed to exhibit some strength, after a complete year passed without any significant outcome from the strategy involving *cessation of usurpation, transitional government and free elections*.

After the National Assembly approved a USD 20 million Fund for Litigation Abroad on January 29th, some disagreement with Special Attorney José Ignacio Hernández emerge as rules to manage it were not clear.

Hernández is someone that has demonstrated a good understanding of the complex situation regarding the claims against the Republic and PDVSA and seems to be a key player in all legal matters related to the interim government. If Hernández steps aside, we suppose it wouldn't be good news for the country but it wouldn't be an imminent problem, as restructuring is not a short-term event and someone else could replace him to face restructuring matters in the future.

Security	31/12/2019	31/01/2020	Total Return	Total Return (2020 YTD)
VENZ 6 12/09/20	11,85	12,40	+4,64%	+4,64%
VENZ 12 3/4 08/23/22	11,80	12,25	+3,81%	+3,81%
VENZ 9 05/07/23	11,85	12,05	+1,69%	+1,69%
VENZ 8 1/4 10/13/24	11,75	12,35	+5,11%	+5,11%
VENZ 7.65 04/21/25	11,90	12,00	+0,84%	+0,84%
VENZ 11 3/4 10/21/26	11,90	12,25	+2,94%	+2,94%
VENZ 9 1/4 09/15/27	12,00	12,60	+5,00%	+5,00%
VENZ 9 1/4 05/07/28	11,85	12,15	+2,53%	+2,53%
VENZ 11.95 08/05/31	11,95	12,40	+3,77%	+3,77%
VENZ 9 3/8 01/13/34	11,80	12,25	+3,81%	+3,81%
VENZ 7 03/31/38	11,65	12,20	+4,72%	+4,72%
PDVSA 8 1/2 10/27/20	17,35	18,80	+8,36%	+8,36%
PDVSA 9 11/17/21	8,05	7,90	-1,86%	-1,86%
PDVSA 12 3/4 02/17/22	8,15	7,95	-2,45%	-2,45%
PDVSA 6 05/16/24	8,10	8,30	+2,47%	+2,47%
PDVSA 6 11/15/26	8,00	7,85	-1,87%	-1,87%
PDVSA 5 3/8 04/12/27	7,60	7,45	-1,97%	-1,97%
PDVSA 9 3/4 05/17/35	8,20	8,20	0%	0%
PDVSA 5 1/2 04/12/37	7,95	7,65	-3,77%	-3,77%

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

Even though data about the oil industry operative and financial performance remains scarce, past January 27th PDVSA reported that debt remained unchanged during 2019, according to Reuters. Meanwhile oil production and exports have showed signs of a slight recovery in the last quarter of 2019 and we expect that trend to continue whereas PDVSA partners try to find a way to operate amid OFAC sanctions. This depends on US foreign policy towards Venezuela of course, as OFAC has extended Chevron's license to operate in Venezuela until April, but after Guaidó visit, US Government warned oil firms about potential sanctions if they are discovered cooperating with Maduro regime.

Developments about Venezuela are far from being linear so we continue expecting changes in the oil industry that will be shaped by events in the political landscape. Some drivers of change that we are able to identify up to this point include new rounds of negotiations and agreed elections. Moreover, we are not expecting any positive



outcome if Maduro regime intends to carry out National Assembly elections to replace current legislators that oppose his government.

Coupons and default interests: Is it worth to worry about timing now?

Recent concerns have come out after Bloomberg News pointed on January 31th that the prospectus of the Venezuelan sovereign bonds includes a prescription clause that might prevent creditors to claim unpaid coupons on that debt after three years. The debate about the conditions in which this clause may be considered valid is just beginning, but if applicable it will undoubtedly translate into higher costs for bondholders as they try to find legal ways to avoid prescription while figuring out the scope of the clause. Furthermore, it may give some advantage to the representatives of the country if they decide to use the potential effects of the clause as a negotiation tool during debt talks.

Also, when assessing the liabilities derived from the Venezuelan debt and how they are going to be treated in the eve of the restructuring, it tends to be tempting to consider the possibility of receiving default interests. Although we recognize the likelihood of this event may be different from zero, we prefer a conservative approach and recommend expecting a deal based on capital repayment after a significant haircut.

Nonetheless debtors may recover additional value if they are compensated with some kind of performance linked instrument (warrants on GDP or oil production value). This may become very attractive for them, as it is expected that Venezuela and PDVSA will be focused in growing once the political crisis is resolved. Also, privatizations of national companies might allow creditors to swap their bonds for some kind of variable income instrument, either by buying equity issued by those companies or by acquiring participation in a Venezuelan investment fund, if it is established in an attempt to replicate something like the 90's experience. Even when it may be too soon to anticipate what is going to happen based on the available information, Venezuela is again a hot topic for distressed investors.



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