



Changes in expectations after Juan Guaidó came back from his tour, meeting with global leaders, and a reentry without mayor problems last February 11<sup>th</sup>, sparked a new wave of optimism among investors, leading Venezuelan debt prices to increase sharply. Prices went from a range of 10-12 to 14-16 cents for Venezuelan debt, which translated into an important increase that averaged 28%. However, global concerns about economic consequences of COVID-19 unleashed an overall risk-off among the markets, affecting Venezuelan debt prices that contracted almost by a third during March and closed below their initial 2020 levels. Average total return YTD is now -9,33% for sovereign debt, and -9% for PDVSA debt.

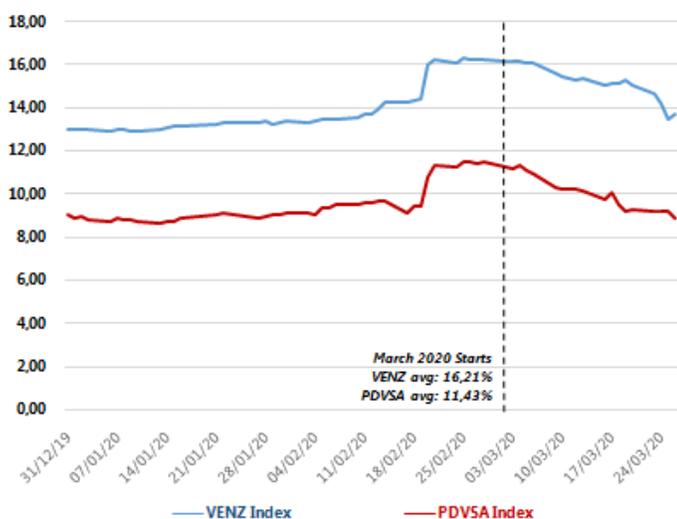


Chart N°1: VENZ/PDVSA bond indexes (Jan – Mar 2020).

Source: Bloomberg, Knossos Asset Management.

As interest in Venezuelan debt woke up during February, prices jumped helped by a lack of sellers. According to Reuters on March 5<sup>th</sup>, MACHoldCo Ltd –a London based private fund– made a bid offer to buy sovereign bonds at 10,5 cents and PDVSA bonds at 6,5 cents, a proposal aimed mostly at retail investors that didn't catch the attention of any relevant bondholders. As we see it, most market participants prefer to wait, and some are forced to wait given how difficult it is to trade bonds under the current sanctions.

Security	28/02/2020	31/03/2020	Total Return	Total Return (2020 YTD)
VENZ 6 12/09/20	15,80	10,45	-33,86%	-11,34%
VENZ 12 3/4 08/23/22	15,65	10,95	-30,03%	-7,72%
VENZ 9 05/07/23	15,35	11,00	-28,34%	-7,75%
VENZ 8 1/4 10/13/24	16,30	9,90	-39,26%	-17,36%
VENZ 7.65 04/21/25	15,50	11,20	-27,74%	-2,10%
VENZ 11 3/4 10/21/26	15,50	10,70	-30,97%	-9,81%
VENZ 9 1/4 09/15/27	15,65	10,75	-31,31%	-10,58%
VENZ 9 1/4 05/07/28	15,75	10,55	-33,02%	-11,40%
VENZ 11.95 08/05/31	15,85	11,40	-28,08%	-6,24%
VENZ 9 3/8 01/13/34	15,55	10,65	-31,51%	-10,16%
VENZ 7 03/31/38	15,60	10,95	-29,81%	-8,16%
PDVSA 8 1/2 10/27/20	21,35	20,70	-3,04%	+19,13%
PDVSA 9 11/17/21	10,30	6,95	-32,52%	-14,06%
PDVSA 12 3/4 02/17/22	10,35	7,10	-31,40%	-13,09%
PDVSA 6 05/16/24	10,40	7,00	-32,69%	-13,49%
PDVSA 6 11/15/26	10,30	6,95	-32,52%	-13,32%
PDVSA 5 3/8 04/12/27	10,00	6,90	-31,00%	-9,40%
PDVSA 9 3/4 05/17/35	10,50	6,95	-33,81%	-15,25%
PDVSA 5 1/2 04/12/37	10,20	6,85	-32,84%	-14,21%

Table N° 1: Venezuela/PDVSA bond performance, March 2020.

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

Notwithstanding the recent down swing in prices, there are some events that might help bring changes in the Venezuelan political landscape, among them:

- OFAC sanctions issued on February 18th against Rosneft Trading, something we read as a message to Russia trying to weaken its support towards Maduro regime.
- USA DoJ pointing Nicolás Maduro and other officials with money laundering and narco-terrorism conspiracy charges on March 26<sup>th</sup>.
- Department of State issuance of the Democratic Transition Framework for Venezuela on March 31<sup>th</sup>, with guarantees for the military high command and state and local authorities.
- Anti narcotics operations in the Caribbean announced on April 1<sup>st</sup>, aimed to add additional pressure on Maduro regime.

Even though such actions may reflect a lack of coordination between the efforts of the Department of Justice and those of the US Department of State, it should not be ruled out that all of them may be part of future negotiations. To this we must add that at the moment, nothing prevents Maduro from running in a presidential election, even with a bounty on his head. In any case, our main concern is that this set of conditions may end up delaying or hindering the negotiated transition.



## ***Harder domestic conditions: Is this the catalyst we were waiting for?***

Just a few weeks before the country joined to the global efforts to fight and stop COVID-19, the National Assembly announced the names of the persons who are going to represent civil society in the preliminary nominating committee to select new electoral authorities. Venezuelan law requires those persons to be unrelated to political parties, but as some of the representatives have made public their political preferences for Chávez or Maduro, many have argued against their designations. However, as they were pointed by the National Assembly under control of the interim government, this can also be seen as a first step to what everyone is expected: agreed elections to unblock the path for regime change and debt restructuring.

Nevertheless, as the COVID-19 consequences started affecting the normally precarious way of living in the country, a new feature has been added to the Venezuelan crisis: the gasoline crisis provoked by the decline of the local industry. The full scope of the scarcity of fuels seems to be partially shadowed by the lockdown and social distancing measures, but in our opinion those are unprecedented conditions that could lead to many kinds of outcomes, ranging from new rounds of negotiations with humanitarian purposes, to violent protests demanding actions to resolve the shortages of fuels.

In balance we see upside in Venezuelan debt from current levels as the odds seem more favorable now for a negotiated transition. On the other hand recovery values might be even lower than originally expected given the difficult situation of the oil market. As the end game is nowhere near, time will tell how attractive or not the reserves under ground are.



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