



As we reached the October 27<sup>th</sup> deadline for the USD 913 payment of the PDVSA 2020 bond, it became clear that for the interim government “all options were on the table” to keep control of CITGO. On October 24<sup>th</sup>, US government and OFAC finally took action issuing an amendment of the General License 5 (now GL 5A), which creates a 90-day protection for the asset. GL 5A prohibits transactions related to the sale or transfer of CITGO shares in connection with the PDVSA 2020 bond and is valid until January 21<sup>st</sup>, 2020.

GL 5A is the result of meaningful efforts from Guaidó administration to get additional support from US government, to gain time and a better bargaining position in negotiations with creditors. However, time constrains to reach a deal with PDVSA 2020 bondholders and threats from other creditors (such as Crystalex, ConocoPhillips and Rusoro Mining) make us wonder how long this strategy will hold and how long can CITGO be protected.

intentions to pursue PDVSA 2020 bond annulment on October 15<sup>th</sup>.

Security	30/09/2019	31/10/2019	Total Return	Total Return (2019 YTD)
VENZ 6 12/09/20	10,85	10,40	-4,15%	-54,37%
VENZ 12 3/4 08/23/22	10,85	10,70	-1,38%	-55,22%
VENZ 9 05/07/23	10,85	10,60	-2,30%	-54,10%
VENZ 8 1/4 10/13/24	10,80	10,60	-1,85%	-54,96%
VENZ 7.65 04/21/25	10,75	10,30	-4,19%	-54,80%
VENZ 11 3/4 10/21/26	10,80	10,60	-1,85%	-57,74%
VENZ 9 1/4 09/15/27	10,90	10,80	-0,92%	-54,31%
VENZ 9 1/4 05/07/28	11,00	10,70	-2,73%	-53,62%
VENZ 11.95 08/05/31	11,05	10,70	-3,17%	-55,11%
VENZ 9 3/8 01/13/34	10,75	10,65	-0,93%	-62,15%
VENZ 7 03/31/38	10,85	10,75	-0,92%	-53,32%
PDVSA 8 1/2 10/27/20	36,50	33,25	-8,90%	-64,48%
PDVSA 9 11/17/21	8,25	6,95	-15,76%	-62,21%
PDVSA 12 3/4 02/17/22	8,45	7,10	-15,98%	-62,93%
PDVSA 6 05/16/24	8,45	7,05	-16,57%	-53,02%
PDVSA 6 11/15/26	8,25	7,00	-15,15%	-53,49%
PDVSA 5 3/8 04/12/27	8,15	6,85	-15,95%	-54,45%
PDVSA 9 3/4 05/17/35	8,45	7,00	-17,16%	-63,44%
PDVSA 5 1/2 04/12/37	8,25	6,85	-16,97%	-54,49%

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

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

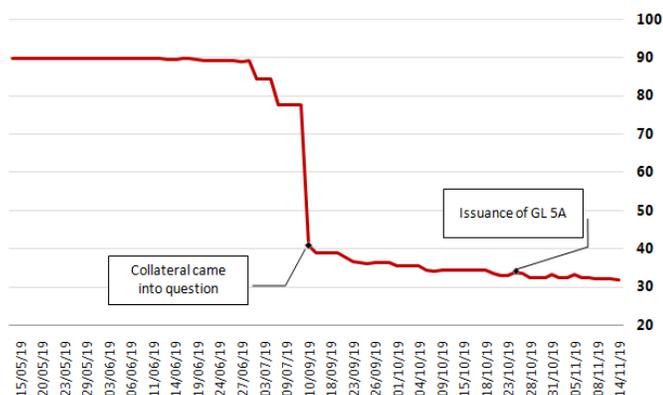


Chart N°1: PDVSA 2020 bond price, May-Nov 2019.

Source: Bloomberg, Knossos Asset Management.

Given recent developments around the PDVSA 2020 we would like to highlight the latest price action. It was trading around 90 cents on the dollar until the middle of the year, when the interim government announced it was not going to make the next payment. As the collateral came into question, prices fell to around 40 cents and finally to around 30 with the amendment to the sanctions.

Future actions from the interim government will be key in setting precedent of its approach to restructuring. In this regard, on October 29<sup>th</sup> the interim government filed a US lawsuit in the Court for the Southern District of New York, requesting PDVSA 2020 bond to be declared null. All this happened after the National Assembly declared its

On November 4<sup>th</sup> the Venezuela Creditors Committee issued a response, stating how harmful is GL 5A for their interests as it reduces significantly the incentives of the interim government to negotiate. Credibility of the interim government may be questioned in this context, as they decided to protect CITGO through the courts, when in July they asked for bondholders’ patience in the “Guidelines for the renegotiation of the public external debt inherited from the Chávez/Maduro period”, prompting them to not go to the courts.

### Struggling for CITGO shares: balancing intelligence and strength

In the quest for taking control of all Venezuelan institutions, interim government has used CITGO as flag for its cause. We have suggested collaboration with bondholders and creditors as a crucial factor to keep the asset and achieve a successful restructuring process, so actions through courts that may be considered hostile are not only difficult to undo, but also detrimental to get support from bondholders and creditors, and recover confidence in the future.



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## Venezuela/PDVSA Monthly Report October 2019

With the National Assembly preparing its case to justify PDVSA 2020 bond nullity, it seems difficult to expect an agreed resolution coming from friendly negotiations by January 21<sup>th</sup>. The consensus of the market at the time was that PDVSA 2020 bonds were legally issued. There were some voices against the swap and the unprecedented collateral but very contrary to the PDVSA 2022 6% (the so-called *hunger bonds*), the market did not question their legal validity and therefore never priced them at discount with respect to other bonds. The payment made “under protest” is also evidence that some validity was given to the collateral. It will be interesting to see how this trial unfolds as it seems unlikely that the Trump administration is willing to provide protection for an undefined time and against all the creditor that are in line to collect on CITGO.

Significant progress in all matters related to Venezuelan debt is still contingent on changes in the Venezuelan political landscape. For that reason, we are not expecting any material change or advance regarding debt restructuring negotiations in the last quarter of 2019. Some discussions about elections seem to be gaining momentum. On October 30<sup>th</sup> the National Assembly approved the creation of a nomination committee to select new electoral authorities. According to Venezuelan laws, this committee is integrated by 11 deputies and 10 representatives of the civil society. At the time, there is no schedule to know when the National Assembly is expected to complete the process to select the new electoral authorities. We can still witness a Christmas miracle, but most probably 2020 is the year when all these events might unfold so we can assess potential consequences for Venezuelan debt.



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