



After a somewhat quiet month, some questions arise regarding the strategy to preserve control of CITGO beyond the GL 5A. November ended without a clear signal of what could happen, as the game seems to be developing just at the doors of the courts. If an agreement can't be reached with bondholders by January 21, Venezuelan assets in the US will be depending on OFAC support again. Even when we expect GL 5A to be renewed, we have also pointed before the lack of incentives for the US Government to hold this protection for undefined time, although when on December 9th OFAC stressed that no creditor can seize the shares now. Chart N°1 and Chart N°2 show how prices stayed in their steady trend during November, just 30 days after the issuance of GL 5A.

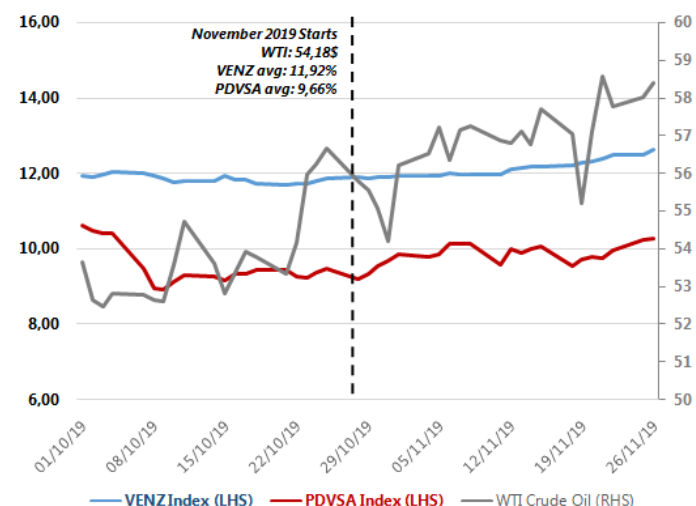


Chart N°1: VENZ/PDVSA bond indexes and oil prices, Oct-Nov 2019. Source: Bloomberg, Knossos Asset Management.

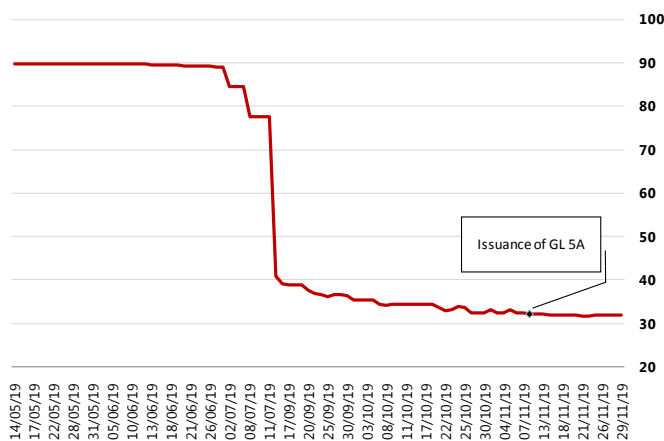


Chart N°2: PDVSA 2020 bond price, May-Nov 2019. Source: Bloomberg, Knossos Asset Management.

Also, JP Morgan phase-out process to take Venezuelan debt to zero in its indexes was expected to be completed by November 29th. Any consequence of this was already priced in previous months' movements, as we can see no price reaction by the market near that date. Monthly total returns showed in Table N°1 must be considered with caution, as information from Bloomberg lack representativeness since US sanctions took place and the market halted, which tend to cause significant impact from relative small transactions.

Security	31/10/2019	29/11/2019	Total Return	Total Return (2019 YTD)
VENZ 6 12/09/20	10,45	11,00	+5,26%	-51,83%
VENZ 12 3/4 08/23/22	10,60	11,90	+12,26%	-50,24%
VENZ 9 05/07/23	10,55	11,40	+8,06%	-50,59%
VENZ 8 1/4 10/13/24	10,50	11,60	+10,48%	-50,78%
VENZ 7.65 04/21/25	10,35	11,45	+10,63%	-49,91%
VENZ 11 3/4 10/21/26	10,55	11,80	+11,85%	-52,78%
VENZ 9 1/4 09/15/27	10,85	11,45	+5,53%	-51,71%
VENZ 9 1/4 05/07/28	10,60	11,85	+11,79%	-48,56%
VENZ 11.95 08/05/31	10,85	11,80	+8,76%	-50,49%
VENZ 9 3/8 01/13/34	10,65	11,80	+10,80%	-57,99%
VENZ 7 03/31/38	10,85	11,30	+4,15%	-51,04%
PDVSA 8 1/2 10/27/20	33,25	31,95	-3,91%	-65,89%
PDVSA 9 11/17/21	6,95	7,90	+13,67%	-57,06%
PDVSA 12 3/4 02/17/22	7,10	7,70	+8,45%	-59,97%
PDVSA 6 05/16/24	7,05	8,00	+13,48%	-46,80%
PDVSA 6 11/15/26	7,00	7,60	+8,57%	-49,35%
PDVSA 5 3/8 04/12/27	6,85	7,60	+10,95%	-49,72%
PDVSA 9 3/4 05/17/35	7,00	8,25	+17,86%	-56,89%
PDVSA 5 1/2 04/12/37	6,85	7,85	+14,60%	-48,05%

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

It is worth noting oil industry recent news that point to a slight increase in exports. With regard to this, according to a Reuters' note from December 6th, Maduro administration and some opposition representatives may be considering giving private oil firms operating rights to boost output amid sanctions. Although Special Attorney Hernández later said it would go against current Venezuelan hydrocarbons law, we expect this to be a topic to be reviewed in the following months as Maduro administration keeps exploring ways to mitigate the effects of US sanctions. In a more optimistic view, this could open the door to an easing of the sanctions that could alleviate the industry. Furthermore, if lighten sanctions reach the secondary debt market it would be reasonable to expect a significant recovery of the prices.

Meanwhile, political landscape in Venezuela is experiencing some turbulence due to potential corruption scandals that may affect Guaidó's popularity and his



capacity to accumulate and retain support from other political parties, even though he's already confirmed as president of the National Assembly for the next one year period and in that role support from US to him seems firm. As a result, opposition has discarded to hold elections to renew National Assembly representatives while the institutional conflict remains.

Venezuelan strategy to safe the assets and achieve the transition: Is it time to adjust the sails?

2019 has taught us that gaining time is the preferred strategy by the interim government, as long as they keep playing the same routine we only expect less friendly bondholders and creditors. While CITGO enjoys a special but limited protection, claims on it are still mounting. As we recently learned by Reuters on November 26th, ConocoPhillips is trying to get a better position in the queue to collect from the refinery. This company filed a motion seeking to seize shares in PDV Holdings, the parent of CITGO, after PDVSA stopped honoring the USD 2 billion award derived from an ICC arbitration last year.

However, on December 13th the Delaware District Court suspended this request and the one introduced by Crystallex, which was also pursuing PDV Holdings shares. Both cases are expected to be resumed when the Supreme Court of Justice adopts a decision in the Crystallex case. This current advantages are not sustainable over time (i. e. sanctions protecting CITGO, judicial orders), so the risk of facing hostile negotiations is real and increases as the time passes.

Patient from allies is also finite and if the US is considering changing its strategy to oust Maduro, it is relevant to note that recent statements from the Secretary of State Department revealed that the US support is with Venezuelan institutions, so Guaidó might not be indispensable for their goals. In that sense, we might see new actors emerge or gain a more predominant role in the transition.



Credit Research and Strategy

Sandy C. Gómez C.

+58 426 530 5104

Knossos Asset Management

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