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FEATURED Q&A

What Do Sanctions Mean for Holders of Venezuela's Debt?



Thousands of Venezuelans took to the streets across the country Tuesday calling for international humanitarian aid to be allowed entry. // Photo: @jguaido via Twitter.

Q The prices of Venezuelan government bonds rallied after National Assembly President Juan Guaidó declared himself the country's legitimate president and won official recognition from numerous countries, including the United States. Just days later, trading of bonds slowed down after the U.S. Treasury Department clarified its new sanctions included Venezuelan government-issued bonds. To what extent are investors seeing Venezuelan debt as a good deal, and to what extent will U.S. sanctions affect trading? What would happen to Venezuela's defaulted bonds if President Nicolás Maduro steps down, and what would happen to them if he remains in power? Is it growing more or less risky right now to hold Venezuelan debt?

A Michelle DiGruttolo, senior managing director at Ankura, and Jay Squiers, managing director in the firm's energy restructuring office: "The latest sanctions will ensure that trading on both Venezuelan government-issued bonds and PDVSA bonds remains at a virtual standstill. As Maduro continues to resist pressure to resign, sanctions will increasingly restrict his access to cash and hinder his ability to move petroleum. As a result, he will struggle to pay the October 2020 PDVSA bond, increasing the risk of default on the Citgo-colateralized loan. The opposition has moved to appoint a new board of directors for Citgo. U.S.-based executives of Citgo may recognize the new board and cooperate in an effort to avoid a PDVSA-bond default. A default on those bonds would place the refiner's equity ownership at the center of foreclosure battles involving bondholders, both Venezuelan

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TODAY'S NEWS

POLITICAL

Opposition Sets Deadline for Letting Aid Into Venezuela

Venezuelan opposition leader Juan Guaidó on Tuesday set a Feb. 23 deadline for the government of Nicolás Maduro to allow international aid to come into the country, appealing to the armed forces to side with the constitution and "humanity."

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ECONOMIC

Brazilian Retailers See Strongest Sales in Five Years

Retail sales in Brazil rose 2.3 percent last year, the best annual result for retailers since 2013.

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POLITICAL

Jury Finds 'El Chapo' Guilty on All Charges

After more than a week of deliberations, a jury in Brooklyn found Mexican drug kingpin Joaquín Guzmán Loera, known as El Chapo, guilty of all 10 charges of drug conspiracy.

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Guzmán // File Photo: U.S. Government.

POLITICAL NEWS

Opposition Sets Deadline for Letting Aid Into Venezuela

Venezuelan opposition leader Juan Guaidó on Tuesday set a Feb. 23 deadline for the government to allow international aid to come into the country, NBC News reported. As thousands of supporters rallied in the streets, Guaidó said he was issuing a "direct order" to the armed forces to allow the aid in. "Put yourselves on the side of the constitution, but also on the side of humanity," he said, referring to the military. Socialist President Nicolás Maduro's supporters also held rallies on Tuesday, which was the Youth Day holiday in Venezuela. Last month Guaidó assumed the constitutional role of interim president until new elections could be called, a move that won international recognition from Western powers but has been



Guaidó // Photo: @jguaido via Twitter.

rejected by Russia, Turkey, Syria and others aligned with Maduro, who has pledged to remain in office. Guaidó has publicly extended olive branches to Russia and China, The Wall Street Journal reported Tuesday. Chinese diplomats, worried over the future of its oil projects in Venezuela and the nearly \$20 billion that Caracas owes Beijing, have held debt negotiations in Washington in recent weeks with the opposition's representatives there. Foreign Ministry spokesman Geng Shuang said earlier this month that Beijing "has been in close communication with all parties in various ways on the situation in Venezuela," the newspaper reported. "No matter how the situation evolves," Geng said, "China-Venezuela cooperation should not

be undermined." Moscow has also increasingly hedged its pro-Maduro stance, with Kremlin spokesman Dmitry Peskov saying this month that Russia expected to maintain cooperation with Caracas "regardless of political developments in the country."

Jury Finds 'El Chapo' Guilty on All Charges

After more than a week of deliberations, a jury in Brooklyn on Tuesday found Mexican drug kingpin Joaquín Guzmán Loera, known as El Chapo, guilty of all 10 charges brought against him for drug conspiracy, The New York Times reported. The three-month trial exposed salacious details about Guzmán's lifestyle and the vicious murders he had ordered, and implicated some of the country's most powerful political figures in widespread and massive Mexican government corruption. Prosecutors described his conviction as a watershed moment in America's war on drugs. "This trial has pulled back the curtain on international drug dealing in a way that no other trial has," said Richard P. Donoghue, the United States attorney for the Eastern District of New York. The case revealed that drug gangs for decades were "only able to operate on that scale because of endemic corruption," he said. Guzmán faces life in prison at his sentencing, which is scheduled for June 25. Guzmán's Sinaloa cartel is still active in Mexico and is one of the leading traffickers of the synthetic opiate fentanyl into the United States, according to the report. U.S. Sen. Ted Cruz (R-Tex.) said Tuesday he thinks Guzmán should finance President Donald Trump's disputed border wall, Fox News reported. "America's justice system prevailed today in convicting Joaquín Guzmán Loera, aka El Chapo, on all 10 counts," Cruz tweeted Tuesday. "U.S. prosecutors are seeking \$14 billion in drug profits & other assets from El Chapo which should go towards funding our wall to #SecureTheBorder." Cruz also urged his colleagues to pass the Ensuring Lawful Collection of Hidden Assets to Provide Order Act, which would divert drug proceeds from cartel bosses to fund border security. Opponents say constructing more walls would have minimal impact on the flow

NEWS BRIEFS

América Móvil Reports Stronger Fourth Quarter

Mexico-based mobile phone service provider América Móvil on Tuesday reported a net profit of 10.7 billion pesos (\$541.7 million) for the fourth quarter, Reuters reported. The better-than-expected results reverse losses in the year-ago period, when currency swings battered the company's results, according to the report. América Móvil, launched by business magnate Carlos Slim, has become Latin America's largest telecommunications firm by number of subscribers.

Haiti Protests Continue With at Least Six Killed

Anti-government protests escalated in Haiti on Tuesday, Agence France-Presse reported. Protesters, who accuse President Jovenel Moïse of corruption and are demanding he step down, burned tires and looted shops. A young man was reportedly shot dead at a junction near the presidential palace. At least six people have died since the protest began last Thursday. Meanwhile, all 78 detainees at a prison in Aquin, a city of around 100,000 on the south coast of the country's Tiburon Peninsula, escaped around midday, a national police spokesman said, AFP reported.

Shell, Mitsubishi Invest \$700 Million Brazilian Thermal Power Plant

Brazilian private equity group Pátria Investimentos, Canada's Mitsubishi Hitachi Power Systems and Royal Dutch Shell will invest \$700 million in the construction and operation of a gas-fired power plant with a capacity of 565 megawatts in Rio de Janeiro State, the companies said Monday. Pátria will own 50.1 percent of the joint venture, while Shell and Mitsubishi will hold 29.9 percent and 20 percent, respectively.

of drugs into the country, which typically come through ports of entry or other means used to circumvent physical barriers such as tunnels and boats. Having escaped two high-security Mexican prisons before his ultimate capture and extradition to the United States, Guzmán will likely be sent to the federal government's "Supermax" prison in Florence, Colorado.

ECONOMIC NEWS

Brazilian Retailers See Strongest Sales in Five Years

Retail sales in Brazil rose 2.3 percent last year, according to data released today from state statistics agency IBGE, Folha de S.Paulo reported. The growth marked the best year for retailers in Brazil since 2013, with sales volumes up 4.3 percent. However, sales in December, when the Christmas holiday generally sees stronger sales for retailers, showed a decrease of 2.2 percent as compared to the month before. Brazilian equities have climbed nearly 13 percent in dollar terms over the four weeks since President Jair Bolsonaro took office last month, beating the MSCI Emerging Markets and the S&P 500. Over the last six months, while the main U.S. stock indices and other emerging markets have been in negative territory, Brazil's Bovespa stock index has risen 26 percent, according to Forbes.

Argentine Industrial Activity Declines

Industrial activity in Argentina fell 3.5 percent in 2018, according to data from the Argentine Industrial Union (UIA) released Tuesday, state news agency Télam reported. Meanwhile, state statistics agency INDEC said Tuesday that Argentina's utilization of installed industrial capacity fell to 56.6 percent last December, a 12 percent decline from the 64 percent registered the same month in 2017.

TECH BRIEFS

Netflix to Open Mexico City Office

California-based media services provider Netflix said Tuesday the company will open an office in Mexico City later this year to promote more original content, El Financiero reported Tuesday. Ted Sarandos, chief content officer at the company, said Netflix currently has 50 projects at different stages of production in Mexico. The new office would be its second in Latin America, after Brazil. The company's primary business is its subscription-based "over-the-top" Internet streaming service.

Amazon Launches Direct Delivery Service in Brazil

Amazon last month started selling directly to customers in Brazil for the first time ever, The Business Times reported. The announcement follows months of delays and years of speculation about the company expanding its direct sales into Brazil after initially laying the groundwork there. "We are launching [our direct sales platform] with 320,000 different products in stock, including 200,000 books," Amazon's Brazil country manager, Alex Szapiro, told Reuters. Amazon will directly sell products in 11 different categories from more than 800 suppliers.

Fintech Start-Ups Spread Across Latin America: IDB

The number of financial technology start-ups in Latin America has reached 1,166 across 18 countries in the region, according to a report released last month by the Inter-American Development Bank, or IDB, with Finnovista. The figure represents a 66 percent increase from the last such report, published in 2017. Although five countries account for 86 percent of the fintech companies in the region, initiatives were identified in every country in Latin America, the IDB said. The start-ups focus mainly on payments and remittances businesses, as well as lending and enterprise financial management. The IDB also highlighted the rapid growth of digital banks and particularly in credit scoring, identity and fraud protection operations.

Brazil Central Bank Nominee Open to Blockchain

Brazilian President Jair Bolsonaro's nominee to become the next central bank president has told the country's Senate he would do more to advance technologies such as blockchain and digital assets if confirmed, Reuters reported last week. In a letter to the Senate, Roberto Campos Neto said he had participated in studies researching new financial services technologies at his current job as treasury director for the Americas at Banco Santander. Campos Neto is the grandson and namesake of Roberto Campos, who as Brazil's planning minister signed the decree that created the central bank in 1964, Bloomberg News reported. Analysts expect he will follow the orthodox economic policies put in place under outgoing central bank chief Ilan Goldfajn.



Campos Neto // File Photo: Brazilian Government.

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presidents and Rosneft, which holds half of the Citgo-collateralized PDVSA bonds. If Citgo declares a dividend, under direction of the newly appointed directors, they could direct the dividend to fund the required payment on the PDVSA bonds to avoid default. As a prime source of hard dollars through both its earnings and crude oil purchases, Citgo will be the most valuable asset of a new Venezuelan government, and preserving its ownership without allowing any funds for the existing Maduro government is the most pragmatic course of action. A Maduro exit would create uncertainty until the new government decides which bond issuances and other obligations they will honor. The risk remains high as long as there are two parallel governments. Irrespective of who triumphs, we anticipate a lengthy restructuring battle with all parties taking a haircut."

A **Javier Coronado, associate attorney at Diaz, Reus & Targ:** "Based on the notion that international pressure would soon lead to a new government with which creditors could negotiate payment, investors were seeing Venezuelan bonds as a good deal. However, under the amendments that the U.S. Office of Foreign Assets Control (OFAC) made to its regulations on Feb. 1, first, U.S. persons can no longer purchase any additional bonds; second, current bondholders can transfer such bonds to non-U.S. persons only; and third, U.S. financial institutions involved in a transfer or divestment of Venezuelan bonds must review all information that is or should be in their possession to confirm that such bonds are not being transferred to U.S. persons. As a result, the regulations issued by OFAC have nearly paralyzed trading of Venezuelan bonds. The U.S. government will not roll back its sanctions as long as Nicolás Maduro is in power. Accordingly, if he does not step down, investors with defaulted bonds will possibly need OFAC's authorization to enter into a restructuring agreement with the Venezuelan government or to pursue U.S. legal actions

stemming from such bonds. While Maduro's stepping down could expedite the investors' path to recovery, it is uncertain if a new government in Venezuela would have debt servicing as a priority, especially if it is in need of massive amounts of capital. Against this backdrop, and considering that the U.S. government could issue additional sanctions targeting Venezuela in the coming days, it is certainly growing riskier to hold Venezuelan debt."

A **Jose Pineda, senior consultant at DevTech Systems and adjunct professor at Sauder University of British Columbia:** "First, Juan Guaidó did not 'proclaim himself' president. As president of the National Assembly, he has assumed the powers of interim president in accordance with Article 233 of the Venezuelan Constitution, given the end of the presidential term and the illegitimate elections held last May. The Maduro government's inconsistent macro-economic policies resulted in a significant GDP contraction and hyperinflation before any significant U.S. sanctions were in place, so the latest sanctions (including those on PDVSA) just complicate an already difficult outlook for Venezuelan debt holders. If Maduro stays in power, the Venezuelan economy will continue its meltdown, and markets will not get any credible promise of payments. On the contrary, Guaidó mainly brings upside risk to the Venezuelan debt, even after an orderly debt restructuring process that guarantees payments to debt holders and access to financial markets for the Venezuelan reconstruction. Guaidó has already presented some ideas about his economic stabilization plan, which proposed anchoring the bolívar currency with respect to the U.S. dollar. The plan also includes the privatization of the many companies nationalized during the Chávez and Maduro governments, stopping the monetization of the fiscal deficit by the Central Bank and strengthening its autonomy. These are critical initial steps for the Guaidó administration to restore credibility."

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