OCEAN WALL

VENEZUELA: RIPE FOR RECOVERY?

EXECUTIVE SUMMARY

Venezuela, sitting on the largest oil reserves in the world, was able to build one of the most prosperous Latin-American economies, only to have these resources used to fuel corruption and construct a breeding ground for poverty and inequality.

The political situation we see in Venezuela today perfectly reflects the chaos of its history. Two parties each recognised as the country's leaders depending on which country you ask. On the one hand, you have a government led by Nicolás Maduro which is widely unrecognised by the world's leading economies due to the 2018 elections which are believed to have been corrupt. On the other, you have the opposition, led by Juan Guaidó, who had promised to inject a new lease of life into the morale of the Venezuelan people. Guaidó's party is, in turn, recognised as the leadership by around 60 countries globally (including the US) whilst being increasing distanced from national support, adding another layer of difficulty to an already complex political climate. Both 'governments' have failed to catalyse any material change in what has been described as "the biggest political and humanitarian crisis in the Americas".

Venezuela - the most oil-rich nation globally - sitting in close proximity to the largest consumer of oil in the world (the US) – sounds like a compelling recipe for economic and social prosperity. However, through complete overreliance on a single export, political mismanagement and corruption, Venezuela has quickly become one of the world's poorest nations, with debt currently standing at ~$150bn.[1] Since 2007, sanctions against Venezuela – mainly imposed by the United States in an attempt to effectuate political change – have crippled the South American state. Maduro has indicated that he would like to restructure the country's debt but until US sanctions are removed this is impossible to do. International and National pressure is growing on the US to reconsider its position.

The bolivar, the Venezuelan domestic currency, is one of the weakest globally and this weakness has created a record-breaking hyperinflationary environment that has made consumer purchasing nearly impossible. This, coupled with widespread food and consumer product shortages, has created intolerable living conditions. These, in turn, have led to one of the most extreme emigration cases in history, which has seen, since 2014, around six million (20%) Venezuelans flee the country seeking a better quality of life abroad. More recently, there has been a move towards dollarisation rendering the bolivar essentially worthless. Domestic vendors are increasingly accepting alternative forms of currency. This switch is rekindling economic activity and bringing with it a degree of price stability.

Additionally, there are increasing discussions around potential restructuring deals which would look to relieve Venezuela of its significant foreign debt. By utilising the country's oil industry efficiently, Venezuela has the chance to restore relationships with nations whom they have been indebted to after years of defaulted loans. We have already seen Venezuela forge strong relations with Russia, China and Iran who are exchanging billions in credit for oil - which has largely kept the country afloat in the face of the heavy US sanctions.

---

[1] https://www.law.ox.ac.uk/business-law-blog/blog/2021/10/venezuela-prospects-restructuring-sovereign-debt-and-rebuilding%20'

Oil production is starting to recover having been in decline since the early 2000s. The state-owned oil company, Petróleos de Venezuela SA, PDVSA, is a key obliger in Venezuela's debt pile and is the obvious focal point around which to base a potential sovereign debt restructuring. The price of oil, following the world's energy crises, is increasing – seeing a doubling of production during the last few months of 2021 - and market analysts, believing that the post Covid recovery will fuel demand, see prices being pushed higher. The US is the world's biggest consumers of oil and so its sensitivity to price rises is significant. Some analysts believe this financial pressure could be the trigger for the removal of sanctions.

US sanctions have been imposed on Venezuela for over 15 years, limiting the country's exports but also US investor involvement in Venezuelan debt, creating a creditor base of trapped holders as they can sell but not buy instruments. The end result is that there are a significant number of sellers with the natural buyers (US distressed debt funds) unable to access the market, resulting in an artificially low price for many bonds. In July 2021, Biden removed sanctions on Venezuela importing liquified petroleum from the US, a key condensate in converting tar-like crude into serviceable oil. This might be another early indication that times are changing, and that the US are willing to find a solution to ongoing tensions between the two countries.

Maduro has started to show some willingness to cooperate. Guaidó's opposition party were finally able to participate in local elections this year, ending three years of boycotts by the Maduro regime. In January 2022, Guaidó had his tenure extended by one-year despite facing a decrease in local support and a backlash from influential figures within his own party. With Guaidó being widely viewed as Interim President, the opposition will, for now, want to maintain the status quo in order to project a stable image in order to keep pressure on Maduro.

For real change to be realised in Venezuela, lifting sanctions is vital. Despite everything, Maduro has managed to keep a tight grip on power. Anti-Maduro economies are now faced with a difficult decision; step in and fund a historically corrupt Maduro regime with the hope of effective redistribution or sustain sanctions on Venezuela designed to force him out, something which has, so far, proved ineffective. The reality is that those suffering, as a result of these restrictions, have always been the Venezuelan people.

This Report is not an offer or a solicitation to buy or sell any security. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. It is not an advertisement to an unlimited group of persons of securities, or related financial instruments. The Report does not constitute a personal recommendation and the investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. The stated price of any securities mentioned herein is not a representation that any transaction can be effected at this price.

Each Report has been prepared using sources believed to be reliable, however these sources have not been independently verified and we do not represent it is accurate or complete. Neither Ocean Wall Limited, nor any of its partners, members, employees or any affiliated company accepts liability for any loss arising from the use of the Report or its contents. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. Ocean Wall Limited accepts no fiduciary duties to the reader of this Report and in communicating it Ocean Wall Limited is not acting in a fiduciary capacity. While Ocean Wall Limited endeavours to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice.

The views expressed and attributed to the research analyst or analysts in the Report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate. Information that is non-factual, interpretive, assumed or based on the analyst's opinion shall not be interpreted as facts and where there is any doubt as to reliability of a particular source, this is indicated.

Ocean Wall is authorised and regulated by the Financial Conduct Authority