

Venezuela

Venezuelan bonds rally as investors bet on detente with Washington

Funds hope an easing of US sanctions will trigger big gains for bonds trading at fraction of face value



Nicolás Maduro's last election victory in 2018 was boycotted by the opposition and criticised by the west as rigged. © REUTERS

Michael Stott in Bogotá and **Arjun Neil Alim** in London 4 HOURS AGO

Venezuelan government bond prices have climbed in recent weeks as investors speculate that the revolutionary socialist government of President Nicolás Maduro is nearing a diplomatic breakthrough that could lead to a softening of US sanctions.

The oil-rich country's debt trades at a tiny fraction of its face value following Venezuela's default on \$60bn of debt in 2017 and subsequent curbs placed on secondary trading that have frozen US investors out of the market. Prices plummeted further in 2019 when JPMorgan ejected the bonds from its widely-followed emerging markets index.

Now, bondholders say leaks from Washington pointing to progress in the secretive, long-running talks with Caracas have helped ignite a rally in the bonds, which are trading at 10 to 11 cents on the dollar, up from 8 to 9 cents a few weeks ago.

Venezuelan sovereign bonds are rising again

Dollar bond maturing in 2027 (cents on the \$)



Source: Bloomberg
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“The US government would like to reach a deal with Maduro because this would solve two issues related to President Biden’s re-election: The migration of Venezuelans to the US and Russian-Saudi attempts to squeeze the oil market,” one bondholder said.

The Biden administration inherited a strategy of “maximum pressure” economic sanctions against Venezuela from President Trump, which critics say [failed to dislodge Maduro from power](#), helped trigger the exodus of more than 7mn refugees from Venezuela and pushed Maduro closer to longtime allies Iran, Russia and China.

Biden’s Latin America team has pursued a different approach, offering an easing of sanctions in return for guarantees from the Maduro government of a free and fair presidential election in Venezuela next year. Maduro’s last election victory in 2018 was boycotted by the opposition and criticised by the west as rigged.

Juan González, Biden’s top Latin American adviser, led a delegation to Caracas in March 2022 to open high-level talks with Maduro but progress since then has been slow.

Hans Humes, CEO of emerging market investment firm Greylock Capital, said speculation about progress in the US-Venezuela negotiations had buoyed prices in recent weeks. “We know [talks] could fall apart at any time but the interests [of the two governments] have been aligned for a long time,” he said.

Asked about US-Venezuela talks at a press briefing last Wednesday, President Biden’s national security adviser Jake Sullivan said the US was “prepared to engage in discussions about specific sanctions relief in return for concrete steps that lead us towards a free and fair election” but that he would not “characterise any current diplomatic discussions in that regard”. The National Security Council declined to comment further.

Although debt issued by Venezuela and its state oil company PDVSA is not currently paying regular interest, some buyers are keen to snap it up as a claim in an eventual restructuring of the country’s bonds.

Although such a prospect remains distant, even a relaxation of the US trading ban would likely result in large price increases, they argue, given it would open up the bonds to demand from a much wider group of investors.

Nick Lawson, chief executive at London-based brokerage Ocean Wall and a Venezuelan bondholder since the end of 2021, said he believed debt issued by the South American nation could go much higher. “Cuba trades at 6 cents [in the dollar],” he said, “Lebanon which has no natural resources is at 11 cents. We think on a three to four year view we could get 75 cents back. The asymmetry between risk and reward is compelling.”

One source close to the talks insisted that positive news could come in the next week or two. “There is the potential for a deal on a broader basis,” he said, explaining that this would consist of a series of steps taken by the US and Venezuela towards normalising relations, rather than a single announcement.

The US closed its embassy in Caracas in 2019 and American diplomats working on Venezuela have operated from neighbouring Colombia since then. The sanctions imposed by Trump included a ban on Venezuelan oil, on business with PDVSA and on US citizens or entities trading Venezuelan debt.

Investors have complained that the effect of the bond trading sanctions has been to force US funds to sell their Venezuelan holdings to buyers whose operations are less transparent, for instance those located in the Middle East or Turkey.

“These bonds end up in unfriendly jurisdictions,” said Claudio Zampa, founder and chief investment officer of Mangart Capital, a Swiss-based hedge fund invested in Venezuelan debt. “The US is giving away its leverage and its ability to be a player in the restructuring of Venezuelan debt.”

Republicans in the US congress have opposed relaxing sanctions on Maduro, but the mood has been shifting since Russia invaded Ukraine and western sanctions on Moscow forced Washington to search for alternative sources of oil to supply world markets.

Edward Cowen of Winterbrook, who has co-invested in a fund to buy Venezuelan debt, was optimistic that Venezuela was “very close to an inflection point”. He said: “European interest has certainly increased in the last months as the thaw between Venezuela and the US starts to take hold.”

However, those who have followed the US-Venezuela talks closely say there is no guarantee of an agreement. A similar bond rally earlier in the year fizzled out, with the debt falling back into single-digit cents on the dollar.

The Maduro government has shown no public sign of relaxing its hardline stance, which has included [banning María Corina Machado](#), the opposition presidential candidate currently leading polls.

With presidential elections expected next year and the opposition planning a nationwide primary on October 22 to choose its candidate, time for a deal is ebbing fast. “If the primaries come and go and there’s no deal, then there isn’t going to be a deal,” said another person close to the talks.

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