

MARCH, 2019

## VENEZUELA UPDATE

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### SYNOPSIS OF RECENT CHALLENGES

Since our last look at Venezuela in November-2018, the situation has deteriorated further. **The opposition leader, Juan Guaidò, declared himself interim president on the 23rd of January-2019.** Guaidò, the 35-year-old leader of Venezuela's National Assembly, took the "oath of office" and promised to serve as interim leader and call for general elections. His declaration has been supported by the US, the OAS (Organization of American States) and the majority of Latin American countries. The declaration has been met with expected resistance by the incumbent, President Nicholas Maduro who has ordered US diplomats to leave the country.

The US has also made plans to supply humanitarian aid via the Colombian and Brazilian borders to which President Maduro has responded by ordering the borders closed. The President has also blocked air and sea travel between Venezuela and three Caribbean islands where the opposition has stated that it would store aid. **The opposition**

**has responded by giving President Maduro a deadline to end his blockade or have it removed by force.**

The threat of use of force has created a tense situation in Venezuela with neither party overtly indicating that they have an appetite for an armed struggle at this time. President Maduro has stated that he is of the view that the US is amassing troops on the Colombian border for a possible invasion and he would be considering a "total closure" of the Colombian border. Colombia has been an important source of trade as well as the movement of people since the Venezuelan crisis began, and hence the complete closure of the border would hurt Venezuela and escalate problems even further.

Venezuela has suffered in recent times from hyper-inflation, a shortage of basic amenities including food and medical supplies, a shortage of US-dollars due to reduced oil production and US-sanctions preventing the movement of capital. From a policy perspective, multiple changes to the exchange rate has also helped to fuel the

instability. These challenges have further led to riots, protests by the opposition and mass migration in the region of a reported three million people.

## ANALYST'S OPINION

- The declaration of “interim presidency” by Juan Guaidò and his subsequent backing by the US has served to undermine the authority of the incumbent Nicholas Maduro. The move has created a clear line of demarcation between those who support Maduro and those who support Guaidò; there is literally no middle ground.
- The move to bring humanitarian aid into the country is also a direct threat to Maduro as it seeks to establish Guaidò as the “liberator”, the man who brought aid to the poor and needy. It simultaneously demonizes Maduro as the creator and maintainer of suffering and could have the effect of removing popular support from the incumbent.
- If the military allows the aid to enter the country, it would represent a blow to President Maduro’s legitimacy and would erode his grip on power.
- If the military does not allow the humanitarian aid in, it represents a short term blow to the Guaidò-US movement. This also places the military in a precarious position as members of the military would have families and friends who may be in need of supplies. It is likely that some aid will be smuggled in given the increasing desperation of the people. **The opposition also seems adamant that no setback will deter**

**them as US-driven political strategy begins to take shape.**

- It is clear that the military are the key allies in this conflict. Whoever maintains or conversely is able to shift the allegiance of this body will eventually “win” the conflict. It would not be prudent for the US to sanction a military invasion, risking lives and the ire of the diplomatic community by removing a constitutionally, and previously democratically, elected president.
- **The Russians and Chinese**, who have come out in support of Maduro and have maintained a policy of non-intervention in internal politics, have a role to play in this conflict. The Russians and the Chinese have the ability to “balance” the power that the US brings on the side of declared interim president Guaidò.
- The Venezuelan situation remains “murky”. The current political impasse does not indicate clearly who the winners of this conflict will be and consequently bondholders have no greater clarity regarding when coupon and/or principal payments will be made.

**Based on the above, we have no choice but to maintain our **SELL RECOMMENDATION** on Venezuela at this time.**

## APPENDIX

### IMPORTANT DISCLOSURES

**ABSTRACT**— As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation DEFINITIONS/ RECOMMENDATIONS.

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