THE JMMB GROUP
Your best interest at heart.

INVESTOR UPDATE

September, 2017

VENEZUELA UPDATE

This piece will attempt to provide a synopsis of the challenges and an update on any recent information that may be of interest to investors.

SYNOPSIS

On August 24, 2017, US President Donald Trump issued an executive order banning US trade in new bonds issued by the government of Venezuela, including its state-run oil company, PDVSA. The move is expected to place additional pressure on Venezuela's cash strapped government by restricting access to vital US capital markets. Effectively Venezuela is being prevented from issuing new bonds.

The move by the US comes as a result of the alleged steps taken by Venezuelan President Nicolas Maduro, to circumvent the rule of law and to enhance his dictatorial powers.

It is important to note that this is not the first sanction being placed on Venezuela by the US in recent times. Another important point is that the latest sanction does not restrict trading and the custody of existing bonds at this time. his does not mean that there will be no impact in the future. However, at this time, clients to a large extent, based on their existing holdings, should not be directly affected except to the extent that the sanction negatively affects sentiment.

The restriction also does not prevent the US from buying "heavy sour crude" from Venezuela for its refineries.

ACCESS TO THE CAPITAL MARKETS

Based on the financial and political pressures and the internal challenges faced by Venezuela, the sovereign/country is not expected to attempt to raise financing now from the market. Yields/effective interest rates on Venezuela's benchmark 2027 bonds have climbed to in excess of 27%. Yields at these levels suggest that investors have priced in default therefore, even if Venezuela were to attempt a debt issuance, it would likely receive very little support.

The fact that Venezuelan bond yields are in excess of 27% would suggest that the capital markets are already closed to Venezuela, in terms of raising new financing. The move by the US simply underlines this fact.

It should be noted that most of Venezuela's sovereign debt/global bonds held by average investors have been sold, with "vulture funds" and investors who are willing to go through the default process, picking up most of the bonds at a significant discount. JMMB Research has indicated a sell recommendation on Venezuela from as early as 2015 and an underweight position from May 17, 2013.

Near Term Concerns, i.e. the Maturing 2017's
Effectively, the action by the US president has cemented/cut off Venezuela's ability to "roll over" debt (i.e., re-issue new debt to finance bonds maturing in short order). This may raise concerns regarding Venezuela's ability to pay out the soon to mature 2017's.

On the positive side, oil prices have climbed from a low of US$26.55 in early 2016 to settle in the high "US$45+" range. Venezuela has also proven, in the past, that it has other resources/avenues at its disposal to finance maturing debt. This includes seeking financing from China, selling gold reserves, private financial arrangements (e.g.Goldman Sachs deal) and calling on its Petrocaribe neighbours (e.g. Jamaica, Dom Rep) for support in the form of financing arrangements among others.

IN SUMMARY

We maintain our SELL recommendation and stress the high risk associated with Venezuela.

THE TECHNICALS

A recommendation of SELL means that investors should look to reduce their exposure to Venezuela to 0% of their portfolio at JMMB.