

Country Risk Hot News

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Protests, Dictator, Hunger Bonds, International Sanctions, Inflation: How on Earth Is Venezuela Still Alive?

Once one of the richest country of Latin America, Venezuela is now broke. Thanks to the collapse of the oil industry and general mismanagement of the country. For the last five years, people have been starving to death. This is what we call now the food crisis. Nicolas Maduro is not helping because he is mostly to blame. He focuses on a new constitution that will entitle him with more power. Run to ground, Venezuela is down to its last money reserves. *To make hands meet the government is using the central bank reserves. That hoard consists in \$1bn in cash. It keeps on decreasing.*

Financials point of view:

Goldman Bought this year \$2.8 Billion Worth of Venezuelan Bonds from Petroleos de Venezuela at 75% discount.

To maintain the country afloat Maduro cut the country off from medicines, food imports and many other necessities. The upshot is that foreign investors get actually paid.

Emerging market subscribes to Venezuelan bonds. JP Morgan Emerging Market Bond Index Plus, or EMBI+ for example. While Venezuela represents only 5 percent of the index, it accounts for about 20 percent of its yield. It turns out to be a money maker.

Venezuela can buy itself some time by continuing to take advance payments for its oil from China and Russia -- as long as they're willing to pay them. And it can keep reducing imports. The humanitarian costs are significant.

Buying those Hunger bonds only gives more power to Maduro and in essence it means you wish bad things will keep on happening to Venezuela.



Venezuela starts being looked at, Trump recently implemented sanctions against the country increasing level of political and economic risk.

Corruption and close ties: While Goldman Sachs defended its trade by saying that it bought the bonds on the open market from a broker, bankers and traders say the money ultimately ended up in Venezuela's treasury because the seller was an institution with ties to the government.

Yields on several bonds are about two digits (10% - 20%) and inflations three (720%). Check the "Café con leche" index made by Bloomberg, which measures the hyperinflation one cup of coffee at a time.

The population can't keep up with it.

Conflicts amongst China, Russia and the USA are to come. Indeed, Russia offers an army support to the government (missiles etc).

The United Nations called an investigation for crime against humanity

Independence Vote for Iraqi Kurds

The Origins:

<http://downwithtyranny.blogspot.fr/2014/06/finally-independent-kurdistan-re-re.html>

Since the end of World War I, Kurds were hoping to live in their own state of Kurdistan. But it turned differently as Turkey put its hands on a part of Ottoman territory in which Kurds were attached. Then, the creation of independent states of Syria, Iraq, Israel, and Libya divided Kurds in these countries. Others are currently in Iran.

Iraqi Kurds are quite numerous, around 4.6 million over 36 million of Iraqi inhabitants.



In June 8th 2017, Masoud Barzani, leader of the semi-autonomous Iraqi Kurdish Regional Government (KRG) announces a vote of independence settled for the 25th of September.

The vote being held, the Turkish president Erdogan declared that he would cut oil pipeline with the KRG, denouncing “treachery” for this non-binding vote.

This independence vote is non-welcomed for several reasons. The most outspoken, Mr. Erdogan, is certainly hiding his fear to lose, on a long term view, a part of his territory, Southern Turkey, which includes numerous Kurds. Then, occidental countries are concerned about Iraqi government spending time negotiating terms instead of concentrating their efforts to the Isis problem.

Without revenues from oil sales through Turkey the Northern Region of Iraq would be highly weakened. Weakened also politically as Iran is shutting down travels to Erbil, the capital.

Only Israel remains supportive to the cause of Northern Iraqi Kurds.

The risk is the escalation between Northern Iraqi Kurds and Turkey which is already operating military exercises near the border.

North Korea Accuses Trump of Making Declaration of War

Since late August of this year, tensions between the two leaders of North Korea, Kim Jong Un, and the US, Donald Trump, have been escalating quickly and immediately seized the international Medias. As we know, it is mostly because of the nuclear tests that the North Korean conducted the past months.

Last week, US warplanes bombers flew very close to North Korea shores in order to demonstrate its supremacy as well as its authority in the pacific area.

Following this, on September 25th, North Korea accused Donald Trump of war declaration and warned that the Korean military might shoot down US warplanes flying around the Korean territory.

Yesterday, US tried to calm the tensions and the white house stated that the US has not declared war on North Korea. They added that they hope that no war will occur but they cannot discount that possibility.

In response to this situation, the US has put economic pressure on North Korea.

For now, the conflict between the two countries is a war of words and no real actions have been taken yet. Hopefully, nothing will happen and things will not get ugly. A war would be catastrophic but the US will not allow North Korea to develop a nuclear weapon.

So now, what are the reactions of the financial markets towards this bilateral conflict?

The tensions between North Korea and the US have impacted the stock markets the last few days. Yesterday, gold was on the gain as investors turned to heaven assets after North Korea's foreign minister, Ri Yong Ho, directly accused Donald Trump of having declared war on the country.

As a result, the price of the yellow metal rose 0.2% at \$1320 per ounce, its highest intraday level since last week.

Also, gold climbed 1% on Monday after North Korea's foreign minister warned that Pyongyang might shoot down US warplanes flying above its territory.

Rising tensions over the nuclear weapon development program of North Korea also played against investors' enthusiasm towards Japan. The percentage of institutional investors holding a position in Japanese equities dropped from 20% to 12%, according to a pool conducted by BoAML.

Michael Hartnett, who's the chief investment strategist at BoAML said that the fear of the conflict involving North Korea had developed into the top tail risk, in other words into something that is not likely to happen, which resulted in the reduction in Japanese equity exposure by fund managers.

Spanish Stocks and Bonds Under Pressure After Catalonia Election

<https://www.ft.com/content/1689a644-a744-11e7-93c5-648314d2c72c>

More than 2m Catalans voted for the region's independence towards Spain yesterday, led by president of Catalonia's regional government Carles Puigdemont:

- Spanish bonds, stocks, and the euro get pressured
- The Euro fell 0.8% to roughly \$1.17 yesterday
- The political crisis gets worse and worse within the country

Spain's benchmark stock index (Ibex 35) dropped 1.4% against European market in which most indices modestly perform:

- The conflict between Madrid and Catalonia is a reminder of the political risk in the Eurozone
- The recovery of the Spanish economy would be interrupt if the political crisis continues much longer
- Spanish government debt also suffered: yield on the 10-year bond climbed up 7bp to 1.66%

The euro fell 0.8% to \$1.17 as consequences of the vote. It was trading at almost \$1.21 a month ago, but has been revived by a rise in the dollar.

Spain's economy has grown sharply this year:

→ Helped the country to reduce the yield on its debt

→ Spanish banks have also tapped capital markets, benefiting from cheap borrowing costs

→ Spain is expected to launch new debt maturing in 2022

Finally, DBRS (Canadian rating agency) is set to review its rating on Spanish government debt.

Richard McGuire affirmed that a downgrade is unlikely, especially if debt servicing costs do not rise.

Kenya Presidential (Re)-Election

Some tensions appear in the presidency election that should be held again in Kenya between Uhuru Kenyatta, current president, and his opponent Raila Odinga. The election that was held in August has been rejected by Supreme Court, enlightening "irregularities and illegalities" after Mr. Odinga filed an appeal to the court of justice. The current president was announced winner with 54%, representing 1,4M votes against 45% in August 8th.

Fact is that IEBC officials (Independent Electoral and Boundaries Commission) did not have all the polling station returns when the final result was declared. It reinforced the view that there was impropriety, according to the judges of the court.

The next vote will be held in October 26 but it seems that both candidates, according to western ambassadors, are undermining the commission's ability to set correctly this election.

Opposition supporters held rallies in Nairobi and other cities on Monday. Police fired tear gas and warning shots to disperse protesters.

Threatened by a plausible economic and political chaos in the country, US and UK are threatening Kenya candidates by revoking or refusing visas in case of violence threats or talks.

Mr. Odinga was the one to show up as he requires to change some of the staff in the commission in order to better prosecute the election, also he is claiming that he would boycott the election if his demand is not satisfied. Western diplomats answered that there was no reason to modify the commission before the election, that it could destabilize the well running of the election.

It would be better for the candidates to negotiate but Mr. Kenyatta is not open to concession so discussions between both aborted. Mr. Odinga is already leading to manifestation in the capital.

Western countries are considering a risk of violence in the country:

Kenya is known for disputed election. In 2007 it left more than 1200 dead after violence over the election.

Venezuela: When A Food Crisis Turned Out to Run the Country to the Ground. What Went On?

Days ago, Trump and the white house has prohibited us institution from any involvement in new bonds and shares issued by the government of Venezuela and PDVSA. The political issue is that US does not want Caracas to take advantage of the American financial system to facilitate the wholesale looting of the Venezuelan economy at the expense of the Venezuelan people.

There's a political risk, as Maduro government may collapse (opposition between democratic unity roundtable, psuv (government of Maduro). Crime rate has increased, as Caracas is one of the most, if not the most, dangerous city in the world. The country is isolated after its withdrawal from the Organization of American states, and its suspension from Mercosur.

There's also a money risk, as there is no more liquidity available in the country.

A good index would be the one created by Bloomberg. The coffee with milk price index that could be correlated with the inflation index computed by the FMI. It just tracks a cup of coffee serve piping hot at a bakery in Caracas. The price has jumped to 4500 bolivars from 450 bolivars over the past 12 months. (Increase of 650 percent which can be linked to the 720 percent of inflation).

There is behind this a highlight in the exchange rate of bolivar, as 4.500 bolivars equals 450\$ with the government-set rate, meanwhile it is only worth 50cts in the black market –where people buy and sell dollars. This is about the inflation and the exchange rate which is overvalued.

The country is also under worries about budgetary and external vulnerabilities. Public accounts are weakened. The huge public deficit will rise in 2018. Slight increase in oil prices this year would benefit for exports, but a part of oil production is allocated to the debt repayment to China, which is another risk because of the dependency. (From 2007 to 2014, China lent Venezuela \$63 billion – 53 percent of all its lending to Latin America during this time.)

The international reserves declined by 20% year to year in mid-may 2017. Default risk remains extremely high. For example, Goldman Sachs paid just 865 million dollar in the secondary market for PDVSA bonds valued at 2.8billion dollars

Government finances its huge deficit by issuing currency, and this is behind a currency risk, an ethical issue, as some large banks invest the bonds, while the people are just starving and dying.