

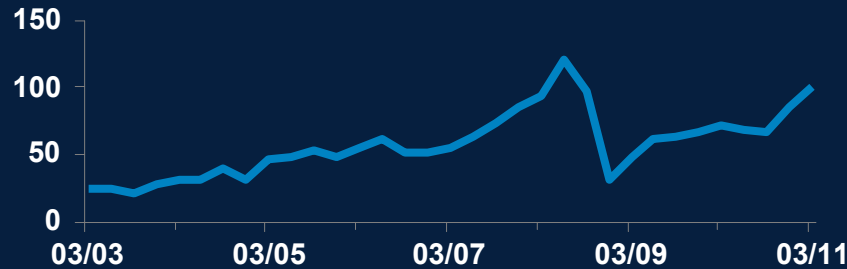


Oil Rich and Dollar Poor
The Venezuela Credit Paradox

June 16, 2011

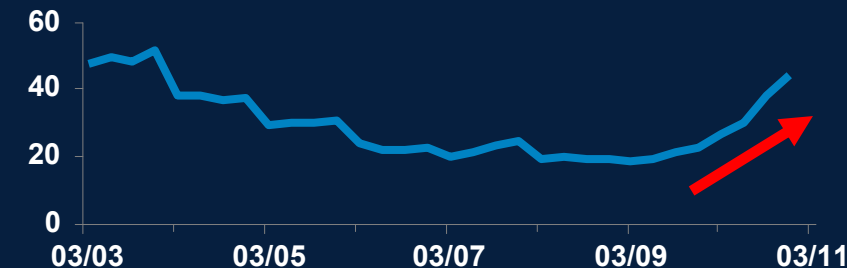
The Paradox Venezuela

Venezuela Basket (\$/barrel)



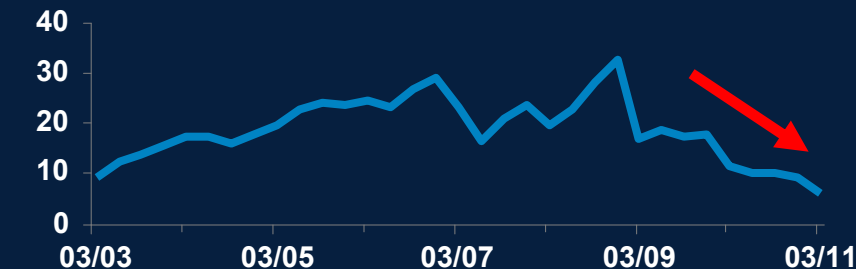
Higher oil prices...

Gross External Debt/GDP (%)



...are no longer helping Venezuela's debt position...

Hard Currency Reserves (US\$b)



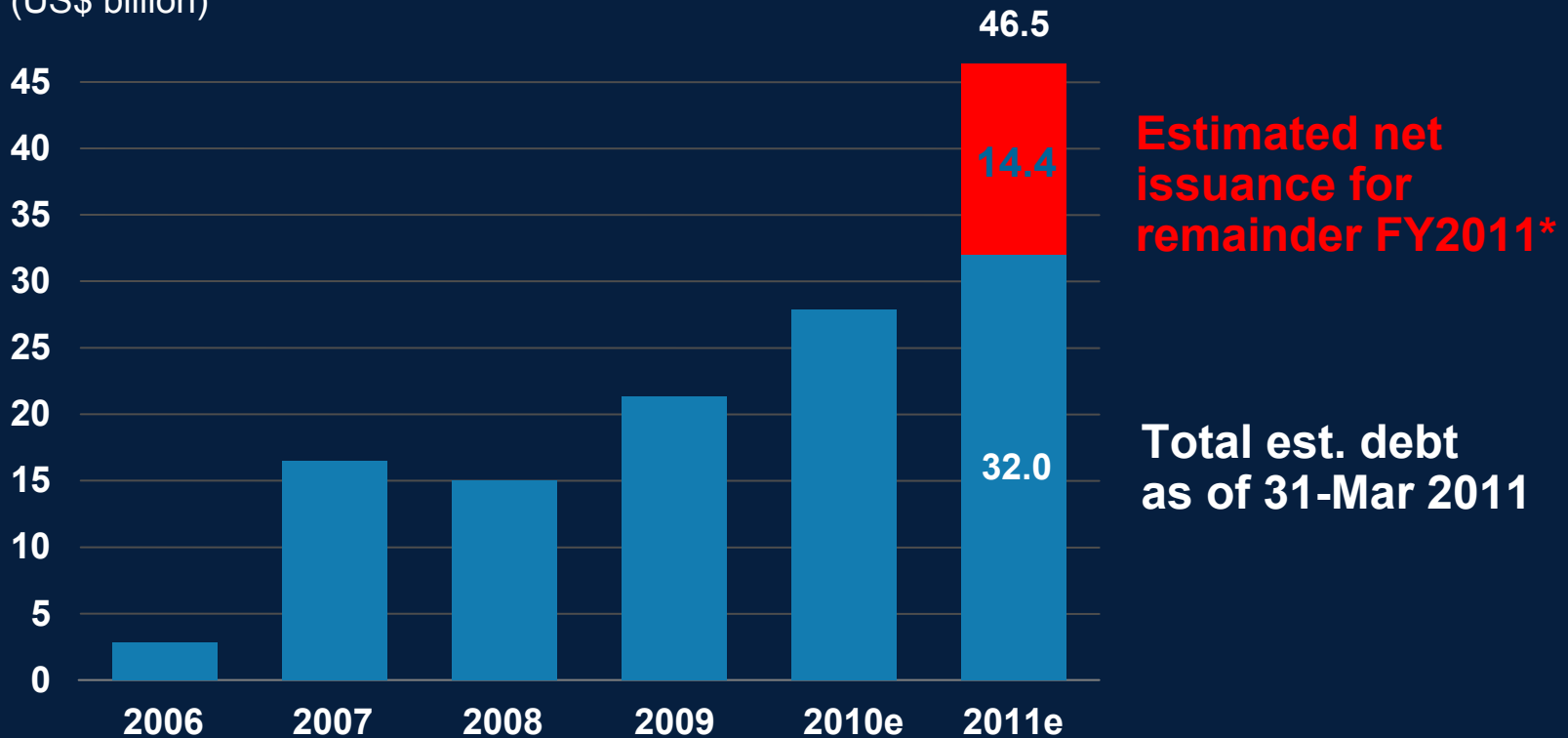
...or its hard currency reserves

The Paradox

PdVSA

Despite higher oil prices,
PdVSA may need to borrow up to an additional \$14.4B in 2011

PdVSA Total Debt
(US\$ billion)

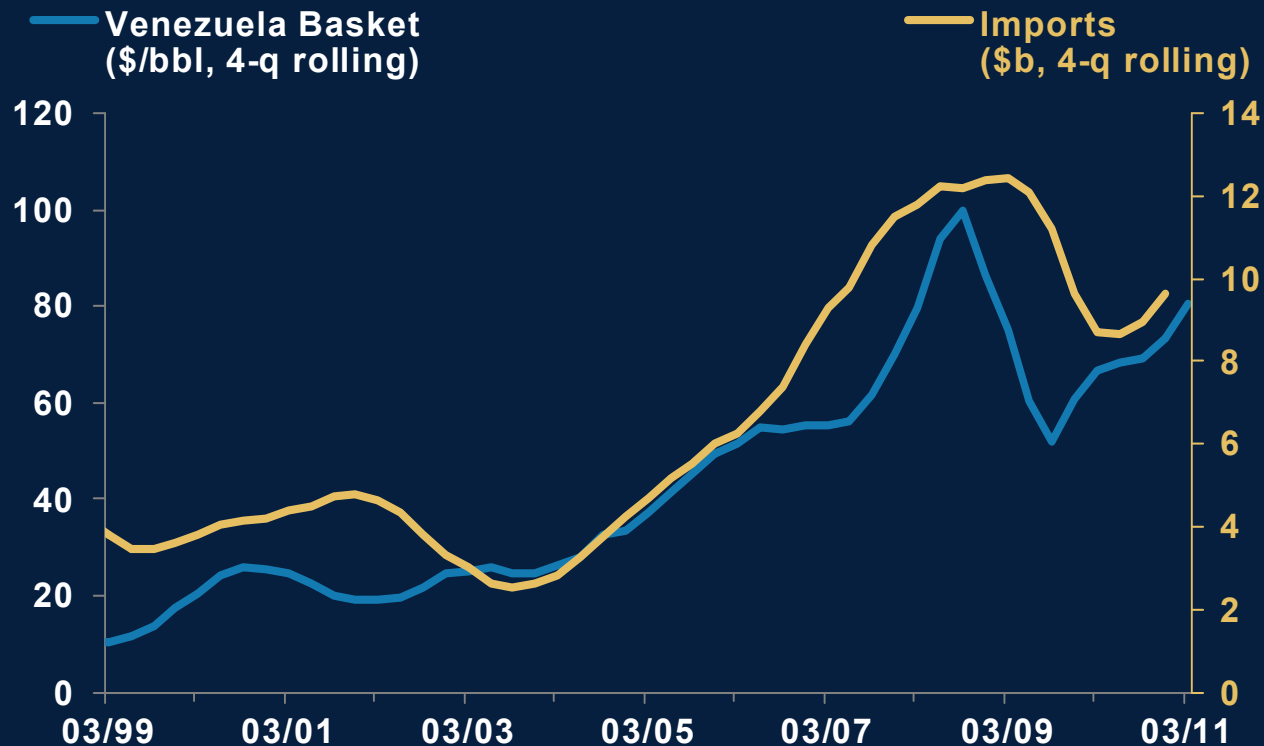


*Estimated funding needs for the remainder of 2011 using our cash-flow based oil price sensitivity model; please see report for more details.

Why?

1. Imports are rising along with price of oil

The economy is becoming more import-dependent

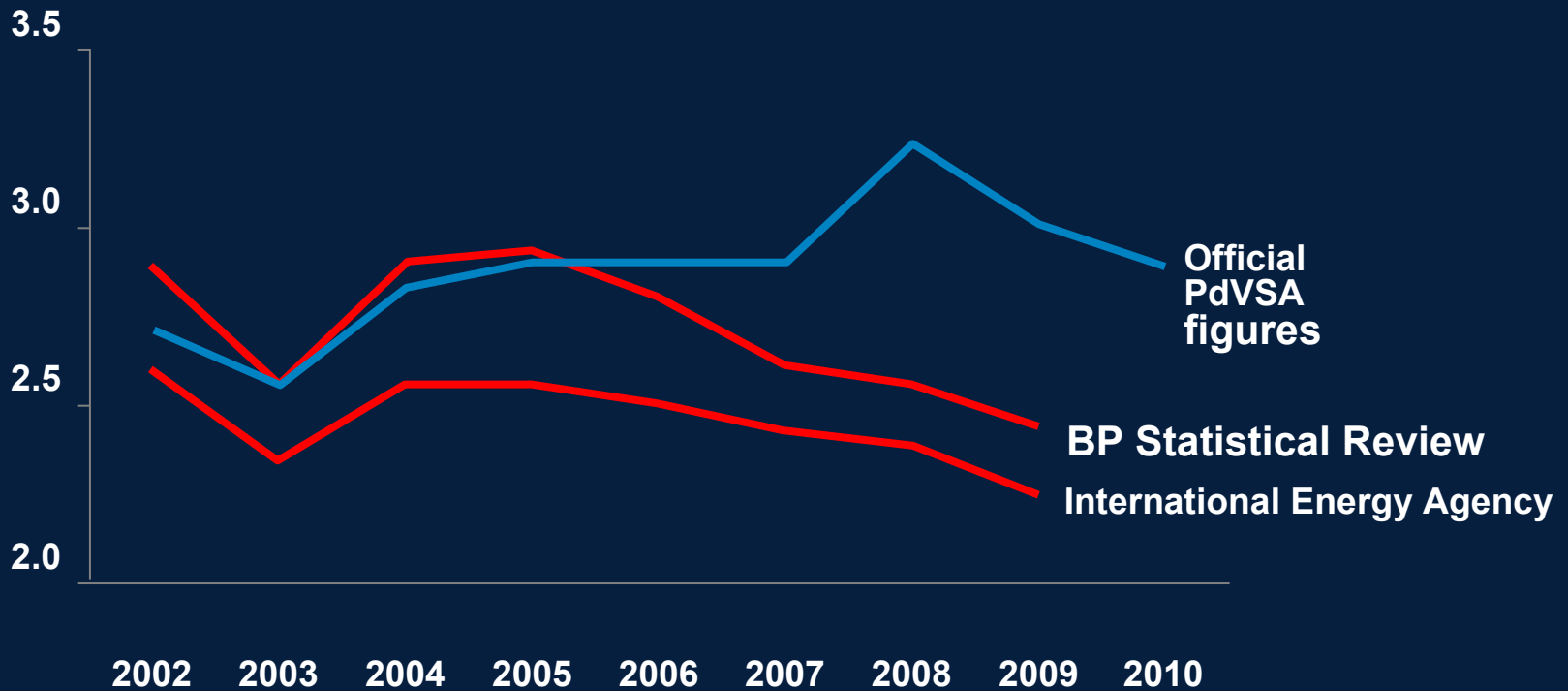


Why?

2. Oil production levels have been declining...

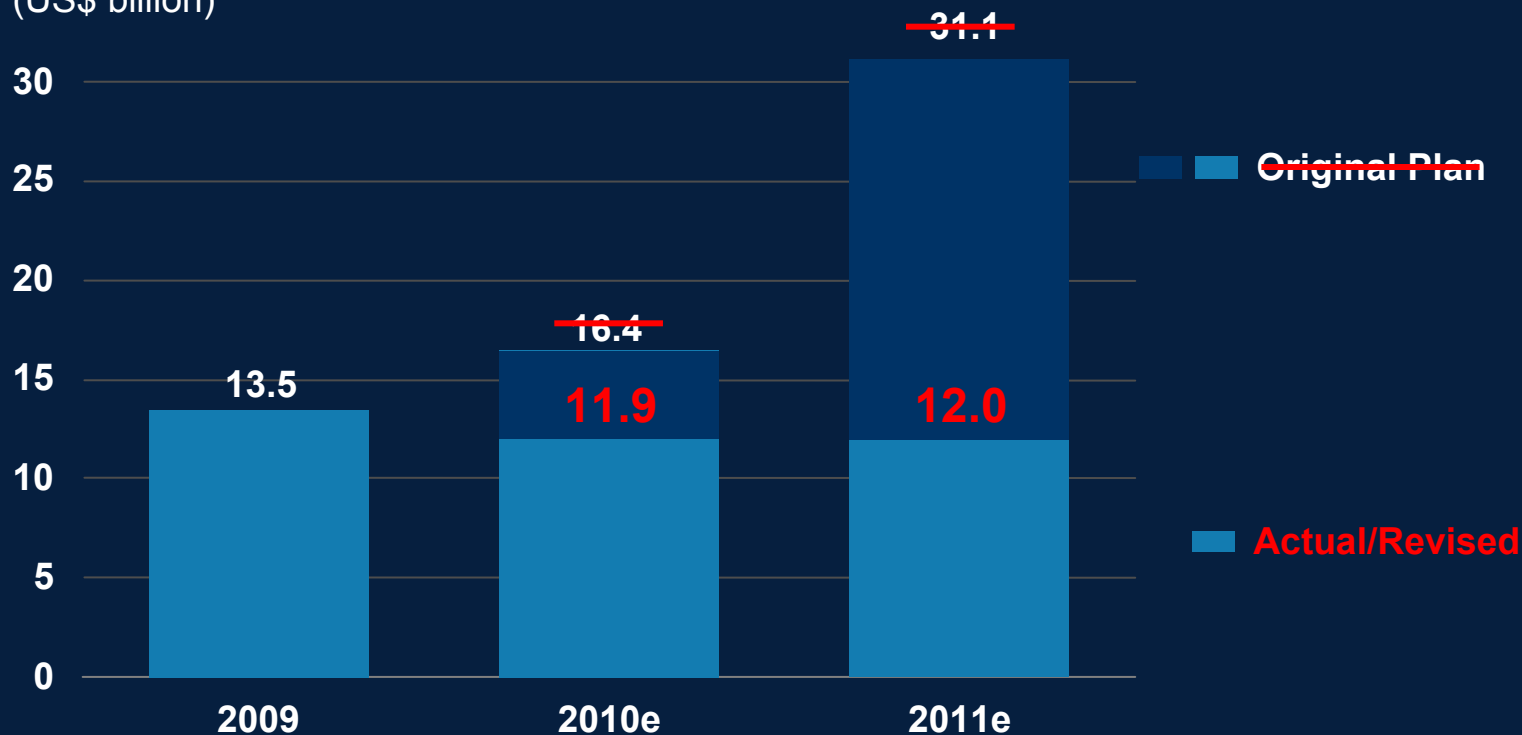
PdVSA Production

(mmbpd)



... and PdVSA has not kept up with its capex goals

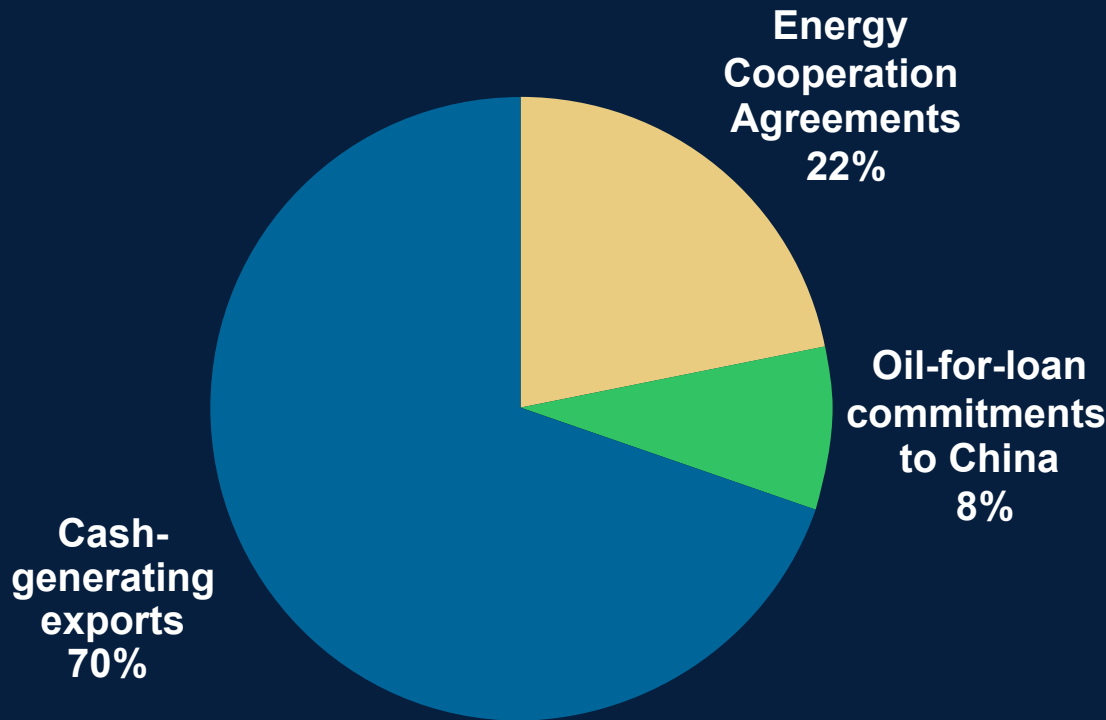
PdVSA Total Investment
(US\$ billion)



Why?

3. Increasing share of exports are non-cash-generating

Estimated PdVSA 2010 Exports



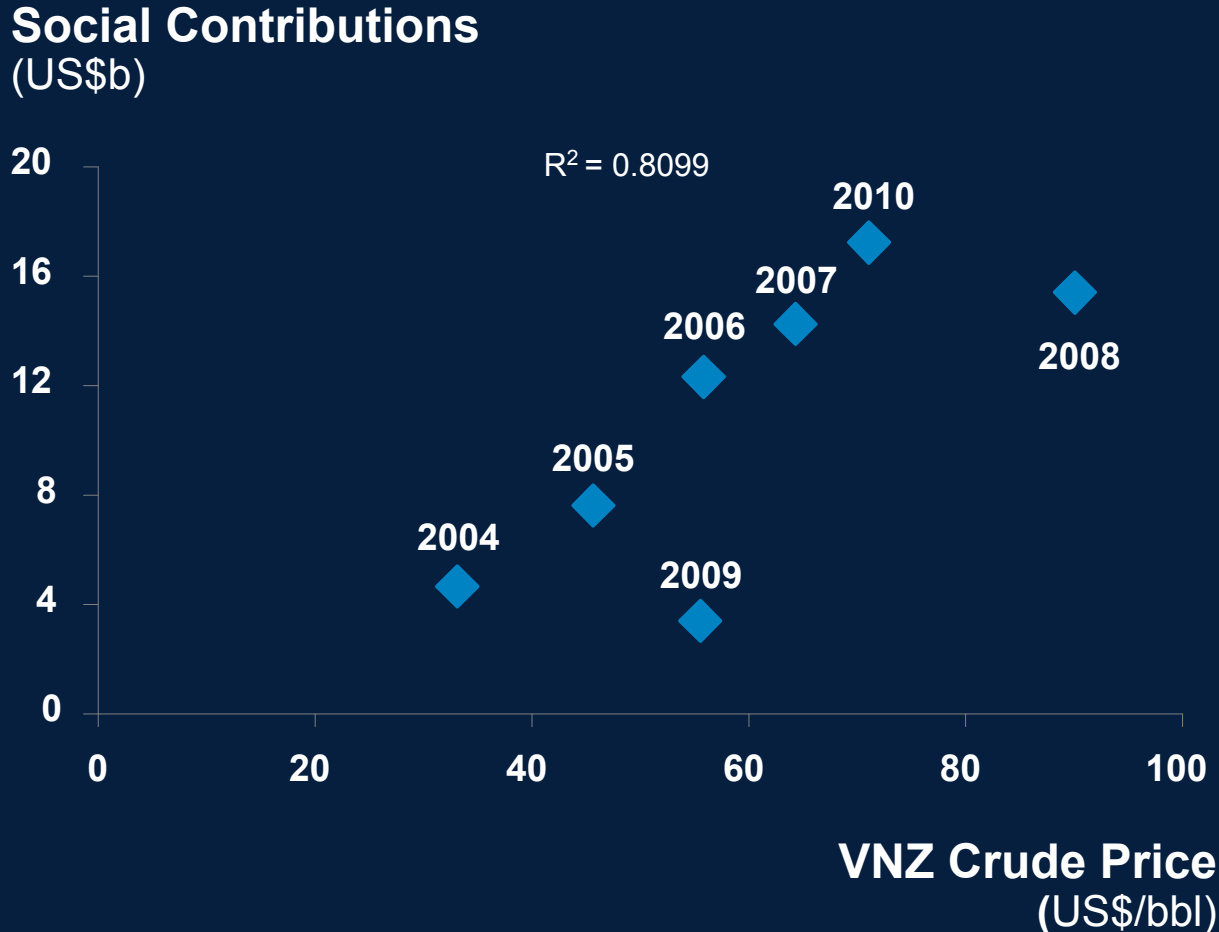
The terms of the ECAs involve PdVSA supplying crude oil and products to countries in Latin America and the Caribbean.

An estimated 30% of 2010 production did not capture upside from rising oil prices.

Why?

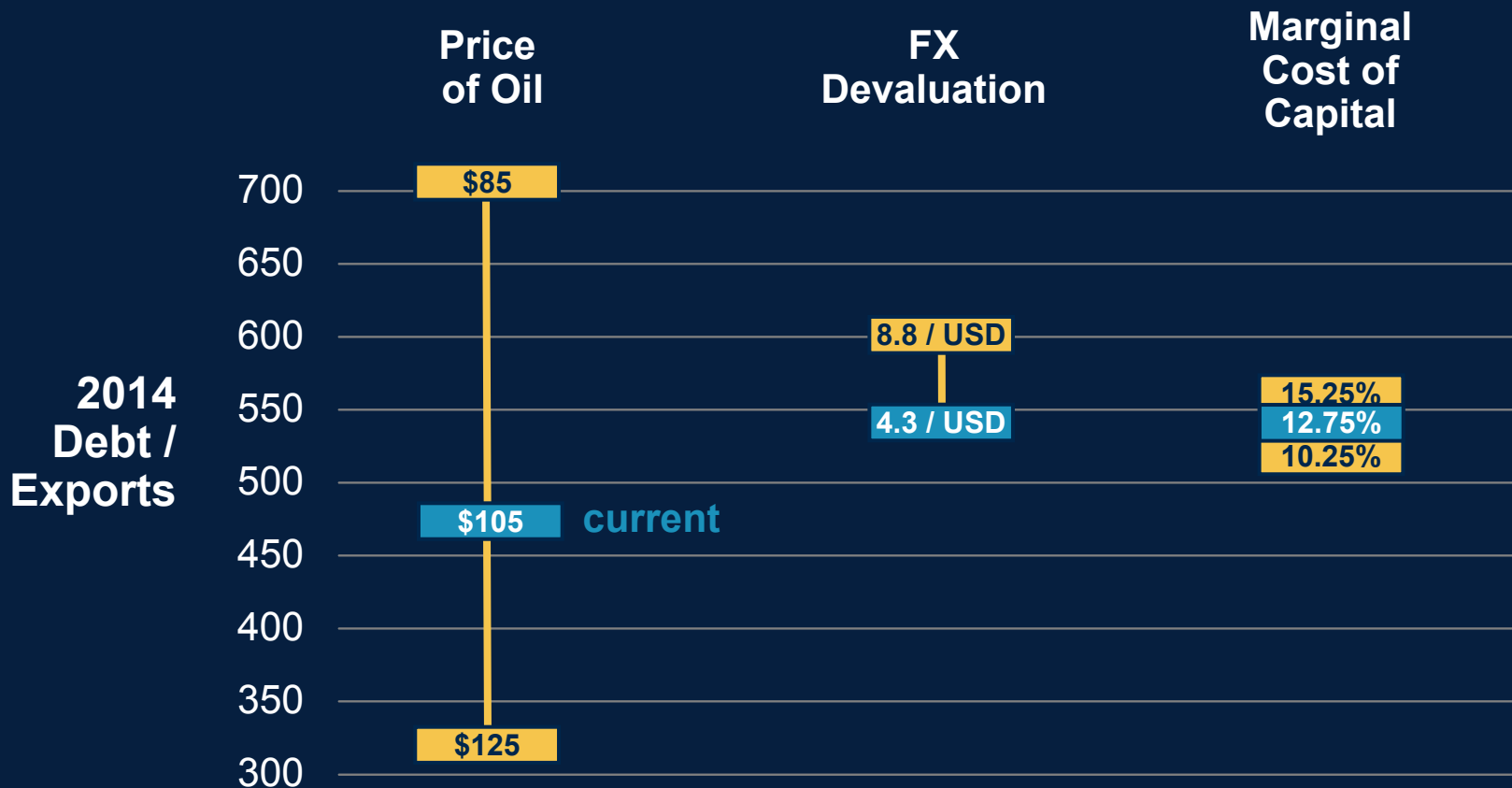
4. PdVSA social contributions rising with price of oil

PdVSA funds are transferred for government social projects



Key Drivers for Venezuela and PdVSA Debt

Sensitivity Analysis



Also... cost of litigation for expropriated assets

\$27 billion

amount sought by
Conoco Phillips
and ExxonMobil

\$2.5 billion

government's
estimate of the
maximum liability

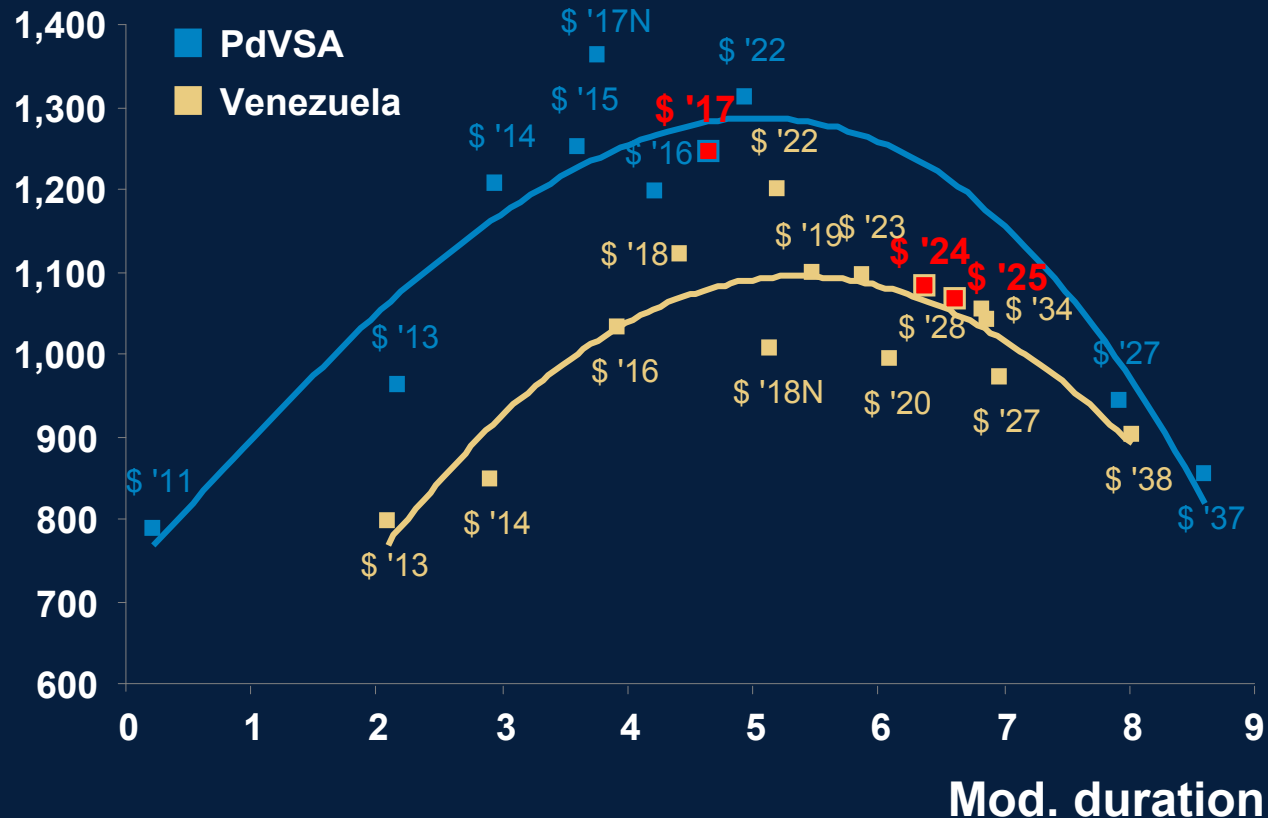
2H 2011

headlines risks
from
hearings / decisions

Our View

Short-term: Buy the belly of the curve

Z-Spread



MOST ATTRACTIVE

Sovereign:

Venz '24

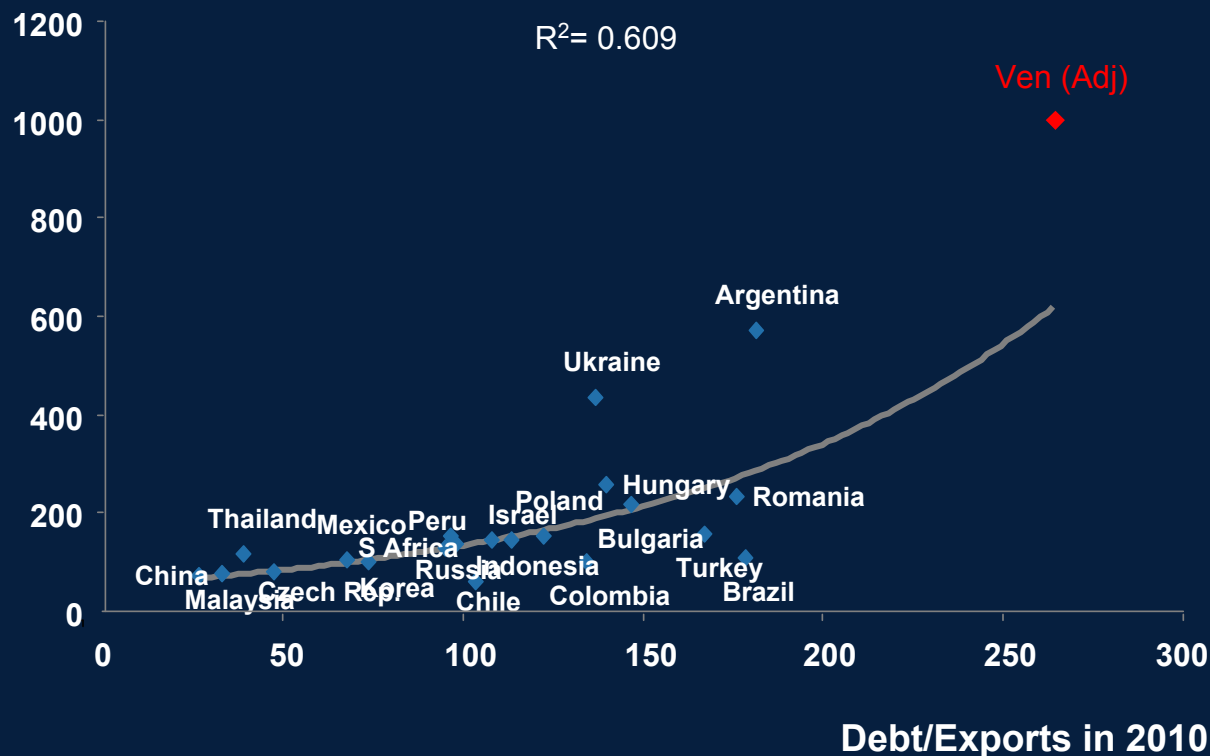
Venz '25

Corporate:

PdVSA '17 (old)

Risks are reflected in the current level of spreads

5-year CDS



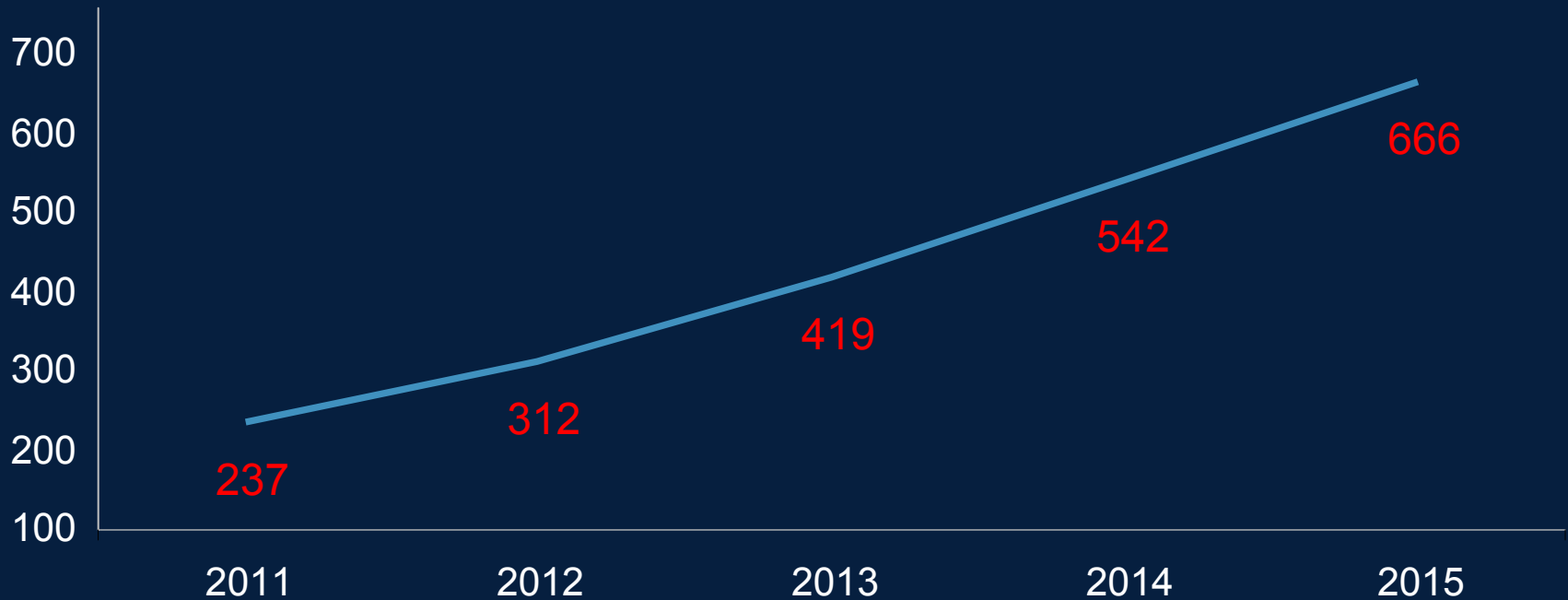
We see attractive risk/reward in the near term

Elevated spreads should compensate for higher total external debt/exports vs. other EM countries

Our View

Long-term: Debt path not sustainable

External Debt/Exports (%)



Contact...

EM Fixed Income Strategy



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