Latin America

News, analysis and commentary

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Q&A PDVSA Bondholders May Be Left With Nothing, Says Gramercy's Koenigsberger

Robert Koenigsberger, CIO, Gramercy Funds Management

- Venezuela may have incentive to turn PDVSA into a defunct company and leave bondholders with nothing.
- Brazil may now have value, says Koenigsberger, who oversees $6 billion in assets.

Interviewed by Ben Bartenstein, Bloomberg News, on Oct. 31. Comments have been edited and condensed.

Q: What's your view on Venezuela?

A: People are missing the forest through the trees. This country has a very difficult political path in front of it as well as financial path. We've probably put together one of the most detailed balance of payments models out there, and we can't convince ourselves the model works through 2017. Venezuela's running out of reserves — that's just a fact.

Q: Do you see a potential credit event coinciding with a change in regime?

A: Often the thought is default equals change of regime. However, we're concerned that the Chavistas have held power through extraordinary and undemocratic means, so they're not necessarily synonymous.

Q: What are investors underestimating in Venezuela?

A: We're increasingly concerned about the difference between PDVSA and Venezuela. There's a scenario where PDVSA doesn't get paid as much as Venezuela. Most sovereigns haven't had to do a bankruptcy filing in the U.S., but PDVSA might have to. Venezuela's goal is to continue producing oil and they could produce and export oil without PDVSA. Venezuela's military has set up an oil services company. PDVSA doesn't own assets. It's just granted monopoly powers on production. If it enters bankruptcy, will the Venezuela government still grant it licenses and grants or might they auction them off? I could imagine a scenario where they don't care much about unsecured holders of a defunct oil company.

Q: What do you find most exciting about LatAm?

A: There are two asymmetries that coexist: An asymmetry of the long side (dislocated distressed, defaulted distressed, capital solutions) that exists not just because of change in credit metrics but change in technicals. And two, banks are no longer making loans that they used to make. One of our themes is dipping into that asymmetry. I also find the ability to buy portfolio insurance fascinating.

Q: Why?

A: That cost has never been so cheap when you measure that from typical five-year CDS low-beta LatAms. Most portfolios you can protect at 150 basis points or less. With this construct, buy long and overlay CDS hedge you can create portfolios that are expected to have high return, but to do so in a fashion that's uncorrelated and tail-risk aware. The current net opportunity set is as exciting as any I've seen in my career.

Q: What's the biggest change you've noticed in the past year or two?

A: The notion of capital solutions — filling a vacuum of institutions that have left the region. There's this notion that you can either buy liquid bonds or private debt. We remain suspect of how liquid the liquid bonds really are. We're pretty certain you don't get paid for the lack of liquidity that exists. We've spent a lot of time transforming our strategy from liquid to longer-lock capital solutions.

Q: Where do you see the greatest value in Argentina today?

A: I still think you see spread compression so I like having some duration — 46s feel a bit overbought compared to 36s. I like 2036 on the curve.

Q: Do you own GDP warrants?

A: The expected return isn't as compelling. There's a lot of volatility, and I'd rather see where that settles.

Q: Could we see warrants in Venezuela?

A: Eventually on the other side of a default or regime change you will see warrants. I think they'll be oil warrants like Mexico.

Q: Why have you become more active in Brazil?

A: Historically, we're a non-BRIC shop. Three years ago we were looking at an overcrowded market. I joked that I'd go to JFK at 11 p.m. and the Brazil flight used to be full and Argentina was empty. Now it's the opposite. If you didn't get burnt in Brazil before, you might want to take a fresh look now. It looks like Carwash is mostly behind it. We're open to adding opportunistically in Brazil. Odebrecht is a great example of something that had been affected by Carwash and the sovereign crisis, and it will be a big benefactor as things get better.

Q: What's been your biggest move in the past quarter?

A: We've had a big reduction in Venezuela as it rallied into the swap. We're opportunistically entering Brazil and taking a bifurcated private approach to Argentina.

At a Glance

How often you visit LatAm: Every four to six weeks

What you never travel without: Bloomberg Anywhere on my ipad.

Book: Next 100 Years by George Friedman **Movie**: Forrest Gump

Hobby: Tennis, golf and fishing **Alternative career**: Strategic consulting