



The Caracas stock market index lost nearly all of its value in 2018. Things could turn fast if president Nicolas Maduro steps down amid calls for his resignation from Washington to Brussels and throughout the shanty towns of Venezuela itself. Photographer: Meridith Kohut/Bloomberg photo credit: BLOOMBERG NEWS/BLOOMBERG NEWS

The Caracas Stock Market Index is up nearly 200,000%. Yes, you read that correctly. It is up precisely 199,568.90% as of market close on Feb. 4.

The problem is, of course, that it is not in dollars. It is in the nearly useless currency known as the Bolivar.

The Caracas Stock Market Index was 2018's worst stock market performer in dollar terms, suffering a collapse of 94%. Someone, somewhere, has lost their shirt, pants, shocks, and shoes in Venezuela. It's impressive that the exchange still has anyone working in it, given the leadership of the Socialists United Party (PSUV) and their disdain for any sort of private market, except their own.

"Negative social mood trends—as reflected by stock market prices—engender recessions and increases in crime, disease, social unrest, and dissatisfaction with leaders—all of which are currently on display in Venezuela," says Chuck Thompson, an analyst with the Socioeconomic Institute, a behavioral economics research institute. If the Caracas Stock Index is any indicator, Venezuela's

economy has been destroyed on PSUV's watch. The Great Depression is now in its third year, with calls for President Nicolas Maduro to step down. Washington and Brussels said they will only recognize Juan Guaido as the nation's leader. Guaido is the country's National Assembly president and believed by members of the Organization of American States and others to be the highest-level elected official in the country since Maduro's election in May 2018 came with bans on numerous opposition politicians.

After the worthless stock market, Venezuela has one bond that's not in default: that's the PdVSA 2020 issue. All of the other sovereign and quasi-sovereigns are in default.

"Regime change is the only game in town as far as Venezuelan bond markets are concerned," says Jan Dehn, head of research for the Ashmore Group and a PdVSA investor.



Venezuelan leader Nicolas Maduro. He tried importing Venezuelan gold bars from London. The British banned it. Central Bank foreign currency reserves are under \$10 billion. The stock and bond markets have already collapsed. The country is on the verge of it. Though many would say it's already there. Venezuela is the largest failed state in the Americas. Photographer: Carlos Becerra/Bloomberg photo credit: © 2019 Bloomberg Finance LP © 2019 Bloomberg Finance LP

As of Friday, the year-to-date return on the Venezuelan segment of the JP Morgan EMBI GD USD-denominated bond index was 43.3% as hedge fund gamblers bet on Maduro's ouster. Those bonds are like penny stocks today. They can go in either direction, with wild swings, all dependent on the prevailing winds of geopolitics.

For now, PSUV enjoys the support of the courts and the military, which basically tell the courts what to do. Some rank-and-file members have deserted. And there have been a handful of higher commanders who have left, but you can count them on one hand. Maduro is going to stay until he loses the support of those military leaders. Assuming PSUV has no plan for reviving the economy, or opening its borders to international humanitarian aid, then Venezuela's physical economy will deteriorate further.

Washington put sanctions on Venezuelan crude oil exports. Trading is still allowed until April 28, but dollars from those sales cannot be repatriated and must remain in blocked PdVSA bank accounts in the U.S. After April 28, if Maduro is still in office, then U.S. firms cannot buy Venezuelan crude.



Maduro walks among a dwindling number of supporters during a pro-PSUV rally on Jan. 23, 2019.
Photographer: Carlos Becerra/Bloomberg photo credit: © 2019 Bloomberg Finance LP© 2019 Bloomberg Finance LP

If Maduro leaves office in the next few months, a new Venezuelan government will want to cure the default as quickly as possible in order to be able to raise fresh funding to get the economy going.

"If the opposition takes over and oil goes up, then they won't need the IMF," says Noam Lupu, a Vanderbilt University professor and the director of the Latin America Public Opinion Project (LAPOP). "Otherwise, they will eventually need the IMF."

Maybe then Venezuelan securities, at least, come back from the brink of extinction.

Investors are paying attention to every little shift in the balance of power between the government and the opposition, waiting to see which head commanders relinquish support for Maduro.

PSUV was created by the late Hugo Chavez. Many of the party's supporters, both in the shanty towns and in the military, were Chavez loyalists. It is unclear whether they will watch PSUV implode with Maduro in charge, or if they will retire Maduro and see if they can somehow bring the party back to life.

Washington said sanctions remain until there are fresh elections.



A 2017 LAPOP survey showed less than 20% support for PSUV candidates. Seeing how the economy is worse now, that number should be even lower.

PdVSA bonds have been the preferred way of foreigners investing in Venezuela.

"We do not own any Venezuela bonds," says James Barrineau, a bond fund manager for Schrodgers in New York. "There is absolutely no way to map out the most probable future over any investable time horizon and we believe that investors who hold the bonds are irrationally optimistic about recovery values for a country devastated by hyperinflation and shrinking in productive capacity daily. We sold bonds in April of 2018...and have not owned since."

Looks like a good idea.

