

# Venezuela Macro Flash

## President Chávez Gets Re-elected With 54.4%

### Bottom Line

- The CNE announced that President Hugo Chávez won the election obtaining 54.42% of the votes, while opposition candidate Henrique Capriles obtained 44.97%, which represents a 9.45% gap. This result was announced by the National Electoral Council (CNE) after collecting data for 90% of the votes and with a turnout of 80.94%.
- Despite the good momentum and the closing gap displayed by opposition candidate Henrique Capriles, the strong core of Chavistas' voters presented an important threshold for the MUD to cross. According to the CNE's report, the difference between the two candidates stood at approximately 1.3 million votes.
- At the time of writing, President Chávez thanked Venezuelan people for its support, while Mr. Capriles in a public speech accepted the results.

### Key Points

- The victory of Mr. Chávez implies that for the time being, the *status quo* regarding macroeconomic imbalances and socialist-driven policies will continue in the country. In our view, the unexpected high gap between the two candidates implies that the opposition could lose some of its momentum and consolidation observed during Mr. Capriles' campaign.
- Now that the uncertainty regarding the election is over, the main focus of attention by investors should go back to oil price dynamics, President Chávez's ongoing health issues, and a potential succession.

**Continues on page 2.**

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#### Munir Jalil

+57-1-639-4195  
munir.jalil@citi.com

#### Jeffrey Williams

+1-212-723-1470  
jeff.williams@citi.com

#### Jose Vicente Romero

+57-1-638-4025  
jose.v.romero@citi.com

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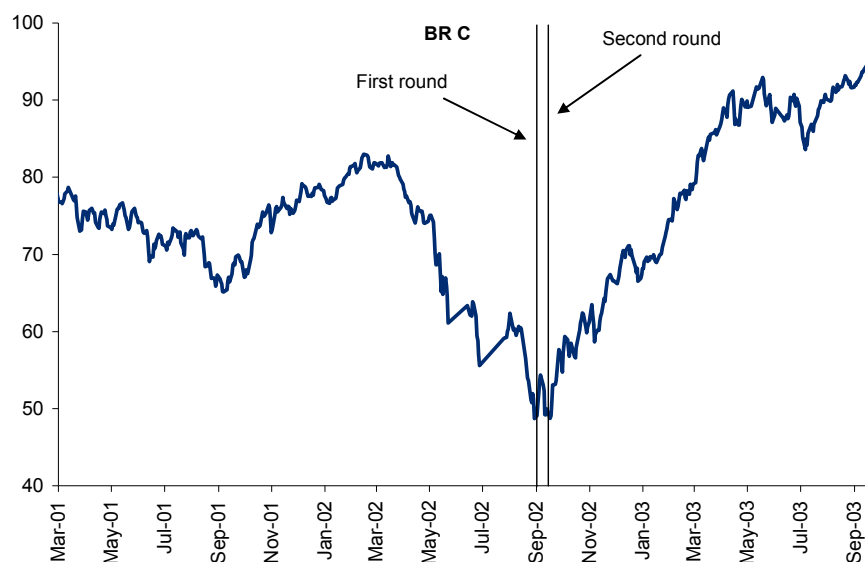
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## Key Points

- The victory by Chavez should weigh on Venezuelan bonds when U.S. markets reopen on Tuesday. The fact that the margin of victory is relatively large will likely exacerbate the impact, as it may hurt any hopes of an eventual transition away from a PSUV-led administration. We believe we could see a potential sell-off of between 100-150bp. In a survey of over 100 investors that we conducted, only 16% said they would reduce their holdings of Venezuelan bonds if Chavez were to win, while 40% said they would add on weakness. The survey was fairly evenly split among those who were overweight, underweight and market-weight. Only about one-third felt that spreads would widen by more than 150bp in a Chavez victory. It is also important to note that this result is not catching investors off guard. The vast majority believed that the most likely outcome was a Chavez victory (although most did not believe the differential would be so large). If spreads were to widen more than 150bp, we believe it would offer an attractive buying opportunity.
- Prior elections in Latin America where the more market-friendly candidate lost provide evidence that the election results could present a buying opportunity (see Figure 1 - Figure 3). In both Brazil in 2002 and Peru in 2011, the market rallied soon after the election. Ecuador in 2006 was the main exception where bonds sold off further following the outcome. In that case, Correa was still the underdog heading into the second round, and he continued to make outright pledge to default on external debt. However, even then, prices returned to their prior level within 6 months.

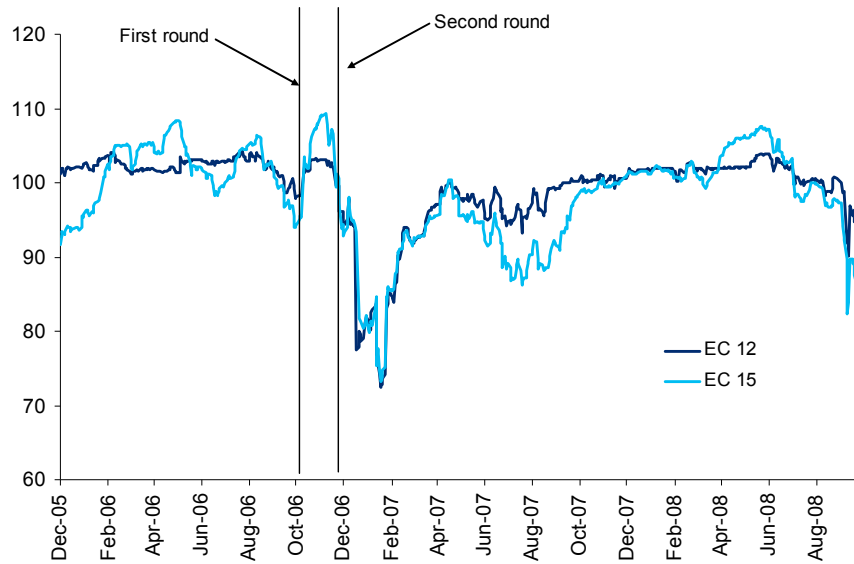
## Performance around elections for some countries in LatAm

Figure 1. Brazil



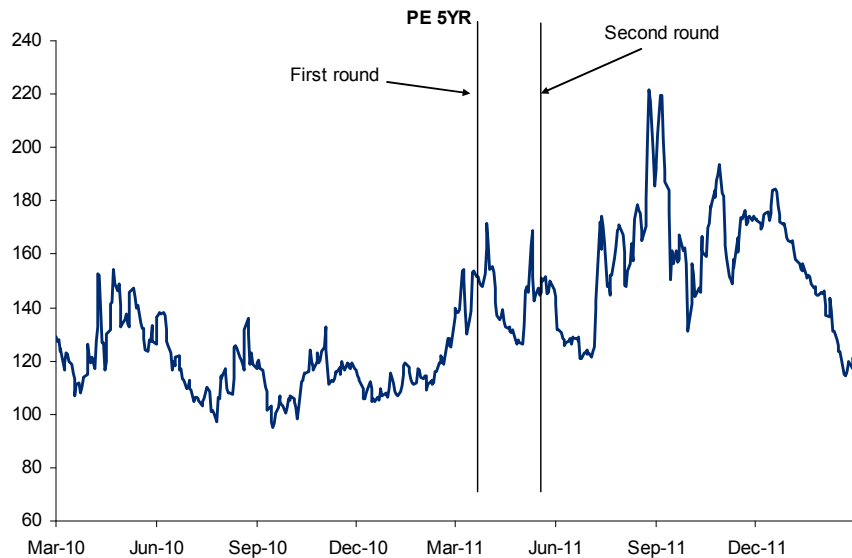
Source: Bloomberg and Citi Research. Note: Brazil series uses the price of the C-bond

Figure 2. Ecuador



Source: Bloomberg and Citi Research. Note: The Ecuador series uses the prices on the EC 12s and 15s

Figure 3. Peru



Source: Bloomberg and Citi Research. Note: Peru series is 5-YR CDS

## Appendix A-1

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