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Venezuela update:

geopolitical shockwaves

Beyond reshaping Venezuela's political future, we believe the move by the US to seize President Nicolás Maduro is likely to reverberate across global energy markets and security debates. For investors, the implications may range from oil price volatility to a renewed focus on political risk in emerging markets.



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Key takeaways

- We believe US intervention in Venezuela, including Maduro's capture, signals a major geopolitical shift with implications for regional stability and global security debates.
- Oil markets could face short-term volatility and long-term uncertainty – a recovery in Venezuelan production could take years and require massive investment.
- Investors should, in our view, monitor ripple effects across emerging market debt, currencies and equities, while considering hedges against energy price swings and political risk.



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On 3 January, US forces captured Venezuela's internationally contested president Nicolás Maduro, bringing him to the US for legal proceedings over alleged drugs offences. In a subsequent press conference, President Donald Trump suggested the US would be "running" Venezuela for an interim period until the country is stabilised. The US has not signalled snap elections or any role for opposition leader and Nobel Peace Prize winner María Corina Machado. As yet, there are no mass protests to overthrow the remainder of the Maduro government. Instead, US Secretary of State Marco Rubio is aiming to control Venezuela by threatening the country's new leader (and Maduro's former deputy) Delcy Rodríguez with further intervention unless she complies with US demands. These demands fall into two key areas – opening up Venezuela's oil reserves for exploitation by US firms and cutting all links with Iran, China and Russia.

Who will pay?

A key question for Venezuela, but also for the US could soon be money: the US administration suggested that proceeds from Venezuelan oil would partly compensate the US government and firms for past expropriations. According to **Columbia University estimates**, international oil companies' claims total USD 20-30 billion, which could be settled through debt-for-equity swaps or future oil-linked repayments.

However, we believe oil revenue is unlikely to be a quick fix for Venezuela's finances. Restoring production by 1-2 million barrels per day will take 5-10 years and up to USD 100 billion in investment. Immediate relief seems unlikely; in fact, instability could depress Venezuelan output and push oil prices higher in the short term.

With money flows to Venezuela from former allies potentially drying up, US financial support and potentially an International Monetary Fund programme may be necessary. Over time, this could reduce political support for the action in the US, while also raising the issue of a sovereign restructuring in Venezuela, where, in a best-case scenario, we expect repayments of 40 to 50 cents to a dollar – **see our earlier analysis**.

Where will the US intervene next?

The second big question is what the Venezuela action means for geopolitics. US action in Venezuela is damaging to China, which had been the recipient of 85% of remaining Venezuelan oil exports. In our view, while the impact on Chinese raw material costs is likely to be limited, China has deep stakes in South America's energy, infrastructure and critical minerals industry, which could now be challenged.

The US has already issued warnings to other non-aligned South American leaderships such as in Cuba, Nicaragua and Colombia. Brazil and even Mexico could be at risk too.

In a positive scenario, a successful transition and economic recovery in Venezuela could stabilise the region over the medium term, allowing the return of many of the seven million Venezuelan refugees and strengthening pro-American political forces in the region sustainably. However, past US interventions in South America have rarely brought lasting stability. The US may struggle to control Venezuela if the government resists pressure and receives support from allies.

Alternatively, civil unrest could lead to new refugee flows, destabilising the region and beyond. For example, Europe has already absorbed hundreds of thousands of Venezuelan refugees.

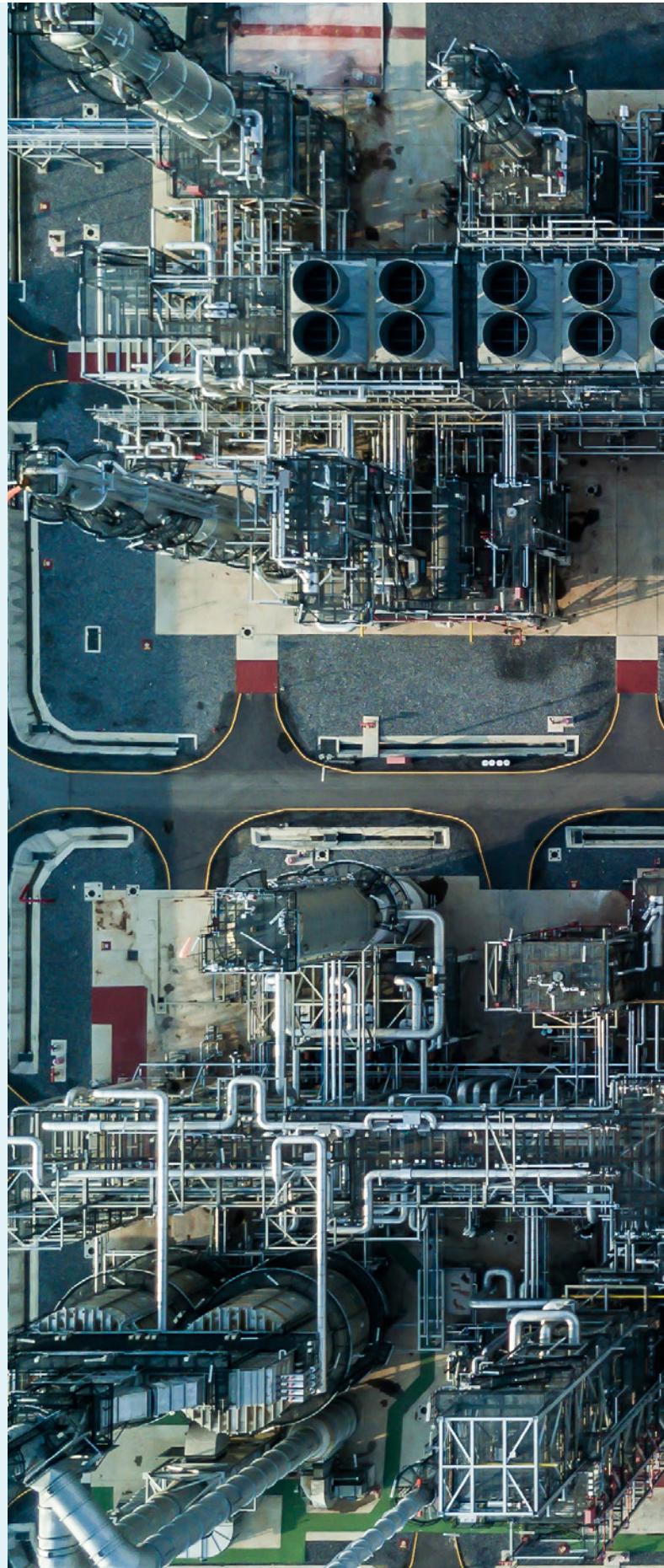
The risk of US intervention has also shifted to the north. On Sunday, President Trump reiterated that the US "needs" Danish Greenland. After US intervention in Venezuela, the consensus view may be that a push to take over the territory seems more plausible. A compromise with Denmark and Europe might be found but could weaken Europe's perceived security further.

Many commentators are focusing on whether the US breached international law and lowered the bar for similar actions by other major powers such as China and Russia. Time will tell, but Europe and other US allies may face more pressure to strengthen their defences and reduce dependence on the US. The appearance of a headline on **Frankfurter Allgemeine Zeitung** discussing Germany's need for domestic nuclear armaments is a telling sign of how far the security debate has shifted.

Potential market implications

Investors may consider maintaining hedges for oil price volatility amid the potential ripple effects – in Venezuela and beyond – of the US intervention:

- **Energy and commodities** – We think there is the potential for short-term gains for oil prices during the present instability, as well as medium-term downside risk for prices as Venezuelan supply recovers. Gold could benefit.
- **Emerging market debt** – If Venezuela regains market access, we believe sovereign spreads in neighbouring countries may compress as stability improves. Distressed debt investors may also find opportunities in bonds issued by the Venezuelan state or Petróleos de Venezuela (the state oil company, known as PDVSA).
- **Currencies** – In our view, oil-exporting currencies (such as the Colombian peso) may weaken if global energy prices fall. The Canadian dollar could be weaker if the US pivots south for energy supply. South American FX could strengthen on improved sentiment but would remain volatile during the transition, especially in non-US-aligned countries.
- **Equities** – We think South American financials and infrastructure may benefit from capital inflows if reforms materialise. China-related sectors (eg, heavy industry, manufacturing) could face cost pressures from higher raw material prices. European defence and the broader European sovereignty topic could see new support.
- **Risk management** – Investors may consider maintaining hedges for oil price volatility and monitoring political risk in Brazil and Colombia as potential offsets to regional stability gains.



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