# PDVSA: a gloomy picture for Q4

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The Venezuelan oil industry goes into the last quarter of 2018 facing the terrible threat of becoming a one-million-barrels-per-day producer. Saudi Arabia, Iraq, the United Arab Emirates - Venezuela's partners in the Organization of Petroleum Exporting Countries (OPEC)- and Russia will take advantage of this downturn to increase its oil production, since in the upcoming months Brent prices will fluctuate between 85-90 dollars.

The S&P Global Platts survey indicates that Venezuela maintained oil production at 1,220,000 barrels per day in September, 750,000 barrels per day below the quota assigned by OPEC in December 2016. Meanwhile, the Argus survey revealed that crude oil production in the country fell to 1,210,000 barrels per day in September, 30,000 barrels per day less than the previous month. Both surveys confirm the continued collapse of the Venezuelan oil production, which used to be 2,332,000 barrels per day four years ago, according to the OPEC's secondary source.

In September, Venezuela sent the largest oil shipment to the United States, shipping 564,000 barrels per day a month to Citgo (32%), Valero (21%), Premcor (14%), Chevron (13%), Chalmette (11%), Loop (3%), Nustar (3%) and Houston (3%) refineries, according to preliminary data from the United States Energy Information Administration.

Data from Tankertrackers reports that Venezuela's second biggest costumer is the Indian refinery Essar Oil – shared between Rosneft (49.13% since August 2017) and Trafigura and UCP (49.13% since October 2016). Venezuela sent 349,000 barrels per day to Essar Oil.

In third place, the country sent 197,000 barrels a day to Bonaire, Saint Eustatius and Saba (Venezuela's third biggest costumer), after the suspension of the embargo by ConocoPhillips to these facilities. PDVSA reach a payment agreement with the American oil company in August. The United States exported 264,762 barrels per day to these terminals the third week of September to be mixed with Venezuelan crude, and then exported to Asian markets.

In fourth place is Curacao with 65,000 barrels per day. The fifth place is for Singapore with 61,000 barrels per day. The sixth, Bahamas 48,000 barrels a day. The seventh country in terms of oil exports was China, which received 34,000 barrels per day. Eighth and ninth were Malta and Aruba, respectively, with 30,000 barrels per day. And, the last one was Cuba with 17,000 barrels per day.

In terms of drilling activity, the American company Baker Hughes reveals that in September there were 25 rig drills, of which 24 were for oil production, 23 on land and 1 off shore, and the last one for offshore gas. It is the lowest level of rig counts since the national civic strike in January 2003. Furthermore, since last May, the number of rigs has fallen to the lowest level in 20 years, averaging 26 drills, which contributes to the slump of oil production in Venezuela.

The other element is the domestic fuel market. Days pass and the Maduro regime does not announce the price of gasoline. It seems that the president never had the intention of stopping the smuggling of fuels from the country. It has been 10 days since he announced the first of October as the date the new price of gasoline would be effective.

With these variables, PDVSA's cash flow will be restricted for the last three months of the year.

On October 27, it will have to pay 949.2 million dollars, the principal and interest, of the PDVSA 2020 bond that has 50.1% of Citgo's shares as collateral. If the grace period for this bond expires, the bondholders could request the seizure of the assets of CITGO, a subsidiary of PDVSA, under the "license number 5" issued by the Office of Foreign Assets Control of the United States this July 20. In addition, on November 20, PDVSA will have to pay 500 million dollars to ConocoPhillips according to the agreed payment schedule. This means that, in 1 month, it will have to disburse 1.449 billion dollars. Maduro knows that he will have to honor both commitments. Otherwise, PDVSA will lose Citgo and its facilities in the Caribbean islands.

The regime will seek to obtain more foreign currency, and place the largest amount of crude in U.S. refineries. In this sense, it's relying on Citgo, so it has to save it from a possible embargo from the default of the PDVSA 2020. Although, later, Maduro will have to face Crystallex and federal judge Stark for the closing of Citgo shares, so that the Canadian mining company receives the 1.4 billion dollars owed by Venezuela.

Of the total oil export volume, the country receives only cash payments of 630,000 barrels per day, and the rest is in the hands of the Development Bank of China (the credit line), Rosneft (debt acquired with Russia), and Cuba (protection to maintain power).

Everything indicates that in 2018 the total income in foreign currency will be in the order of 7 billion dollars. This makes the last fourth quarter of the year a gloomy picture for PDVSA.