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CARACAS: Soldiers break ranks after standing in formation behind Adm. Remigio Ceballos, chief of staff of the Venezuelan Armed Forces Strategic Operational Command, during a press conference to provide details of military drills that are being prepared in response to President Donald Trump's warning of possible military action, at Fort Tiuna, Caracas on Friday.—AP

Trump slaps economic sanctions on Venezuela

Maduro says crude exports to US will be impeded

CARACAS/WASHINGTON: US President Donald Trump signed an executive order that prohibits dealings in new debt from the Venezuelan government or its state oil company on Friday in an effort to halt financing that the White House said fuels President Nicolas Maduro's "dictatorship."

Maduro, who has frequently blamed the United States for waging an "economic war" on Venezuela, said the United States was seeking to force Venezuela to default - but he said it would not succeed.

The order is Washington's biggest sanctions blow to date against Maduro and is intended to punish his leftist government for what Trump has called an erosion of democracy in the oil-rich country, which is already reeling from an economic crisis.

It suggests a weakening in already strained relations between the two countries. Just three days ago, Maduro said the relations between Caracas and Washington were at their lowest point ever.

"All they're trying to do to attack Venezuela is crazy," said Maduro on a TV broadcast on Friday. "With the efforts of our people, it will fail and Venezuela will be stronger, more free, and more independent."

Venezuela faces a severe recession with millions suffering food and medicine shortages and soaring inflation. The South American nation relies on oil for some 95 percent of export revenue.

Citgo Petroleum, the US refiner of Venezuela's ailing state-run oil company PDVSA, is "practically" being forced to close by the order, warned Maduro, adding that a preliminary analysis showed the sanctions would impede Venezuelan crude exports to the United States. He said he was calling "urgent" meetings with US clients of Venezuelan oil.

The new sanctions ban trade in any new issues of US-dollar-denominated debt of the Venezuelan government and PDVSA because the ban applies to use of the US financial system. As a result, it will be tricky for PDVSA to refinance its heavy debt burden. Investors had expected that PDVSA would seek to ease upcoming payments through such an operation, as it did last year, which usually requires that new bonds be issued.

Additional financial pressure on PDVSA could push the cash-strapped company closer to a possible default, or bolster its reliance on key allies China and Russia, which have already lent Caracas billions of dollars. "They want us to fall into default," said Maduro, adding that just under two-thirds of Venezuelan bond holders are in the United States.

Maduro insisted that Venezuela would continue paying its debts. The decision also blocks Citgo Petroleum from sending dividends back to the South American nation, a senior official said, in a further blow to PDVSA's coffers. However, the order stops short of a major ban on crude trading that could have disrupted Venezuela's oil industry and worsened the country's faltering economy.

It also protects holders of most existing Venezuelan government and PDVSA bonds, who were relieved the sanctions did not go further. Venezuelan and PDVSA bonds were trading broadly higher on Friday afternoon. "Maduro may no longer take advantage of the American financial system to facilitate the wholesale looting of the Venezuelan economy at the expense of the Venezuelan people," US Treasury Secretary Steven Mnuchin said on Friday. Venezuela's Oil Ministry and PDVSA did not immediately respond to a request for comment.

PDVSA under pressure

PDVSA, the financial engine of Maduro's government, is already struggling due to low global oil prices, mismanagement, allegations of corruption and a brain drain. Washington last month sanctioned PDVSA's finance vice president, Simon Zerpa, complicating some of the company's operations as Americans are now banned from doing business with him. Trump has so far spared Venezuela from broader sanctions against its vital oil industry, but officials have said such actions are under consideration. The Republican president has also warned of a "military option" for Venezuela, although White House national security adviser H R McMaster said on Friday that no such actions are anticipated in the "near future." Venezuela has for months struggled to find financing because of PDVSA's cash flow problems and corruption scandals have led institutions to tread cautiously, regardless of sanctions. Russia and its state oil company Rosneft have emerged as an increasingly important source of financing for PDVSA, according to a Reuters report. On at least two occasions, the Venezuelan government has used Russian cash to avoid imminent defaults on payments to bondholders, a high-level PDVSA official told Reuters.

"At this point our view is that the country can scrape by without defaulting this year, largely with the help of Chinese and Russian backing and by further squeezing imports. Next year is a tossup," said Raul Gallegos, an analyst with the consultancy Control Risks.

However, China has grown reticent to extend further loans because of payment delays and corruption. Russia has been negotiating financing in exchange for oil assets in Venezuela, sources have told Reuters, but going forward it would be difficult for the OPEC member to provide enough assets to keep up loans destined for bond payments.

Venezuela's government has around $2 billion in available cash to make $1.3 billion in bond payments by the end of the year and to cover the import of food and medicine, according to documents reviewed by Reuters. — Reuters

Yellen defends bank rules passed after 2008 crisis

JACKSON HOLE, Wyoming: Federal Reserve Chair Janet Yellen on Friday emphatically defended the web of regulations the Fed helped enact after the 2008 financial crisis, saying it helped restore the banking system's health and disputing criticism that the rules have hurt lending.

Yellen said the Fed is prepared to adjust the regulations as needed to help financial institutions. But in a speech to an annual conference of central bankers in Jackson Hole, she implicitly rejected efforts by Republicans, including President Donald Trump, to scrap the 2010 Dodd-Frank law as a threat to the economy. The Fed chair refrained from remarking on the state of the economy or on the possible future course of interest rates. Investors had been awaiting her speech for any signals about what the Fed might do when it meets next month. The central bank has been gradually raising its benchmark short-term rate, but most Fed watchers expect no rate hike before December at the earliest.

Overhanging Yellen's speech was the possibility that it marks her final appearance in Jackson Hole as Fed chair. Her term as chair will end in February, and Trump has made clear he is considering replacing her. One candidate he has mentioned is Gary Cohn, a former Goldman Sachs senior executive who leads Trump's National Economic Council.

Some saw Yellen's forceful defense Friday of the regulatory structure imposed on banks since the 2008 crisis as further lessening the likelihood that Trump will reappoint her.

Sal Guatieri, senior economist at BMO Capital Markets, said Yellen's speech "puts her at odds with Trump's deregulation mandate, which could weigh against her remaining as chair when her term expires early next year." Paul Ashworth, chief US economist at Capital Economics, said that "Yellen's passionate defense of the post-crisis tightening of financial regulation isn't going to go down particularly well at the White House" and that it probably makes it less likely that Trump will re-nominate her.

JACKSON HOLE: Federal Reserve Chair Janet Yellen, talks with Mario Draghi, head of the European Central Bank, and Haruhiko Kuroda, head of the Bank of Japan, during a break at the central bankers conference at Jackson Hole, Wyoming.—AP

At the same time, tensions might be arising between Cohn and Trump. In an interview published Friday in the Financial Times, Cohn said he considered quitting the White House over the president's widely condemned response to violence at a white nationalist rally in Charlottesville, Virginia. Cohn said he ultimately chose not to leave because of the duty he feels to his job.

A few hours after Yellen's speech Friday, Mario Draghi, president of the European Central Bank, told the Jackson Hole conference that the global economy is strengthening but warned that countries must work together to resist a growing backlash against open trade. —AP

Trumponomics draws a not so subtle rebuttal

JACKSON HOLE, Wyo: President Donald Trump's name was rarely mentioned as top central bankers and economists spent Friday mulling the fate of the global economy at a mountain lodge here.

But his presence loomed large at a Federal Reserve symposium, and even without citing the man in the White House, the presentations - from Fed chair Janet Yellen, European Central Bank President Mario Draghi and a host of researchers - amounted to a broad rebuttal of many of the ideas that carried Trump to office. It was a day when the president's calls for financial deregulation and "America First" economic nationalism were countered by Yellen's reminder of how a deep financial crisis wrecked the economy a decade ago, and economic research arguing that China and Mexico are less to blame for job losses than forces like technology.

"For some, memories of this experience may be fading - memories of just how costly the financial crisis was and of why certain steps were taken," Yellen said in arguing for only modest changes to existing regulations. Yellen is still in the running to be reappointed by Trump to a new term.

Draghi, traveling from Frankfurt and representing a group of US allies that the administration has sparred with over climate change, trade and other issues, gave a broad call for free trade and stronger multilateral institutions of the sort Trump has criticized. "A turn towards protectionism would pose a serious risk for continued productivity growth and potential growth in the global economy," Draghi said in a lunch address that included a defense of the World Trade Organization, the Group of 20 and other global groups he felt should be strengthened.

The rise of Trump, the vote by Britian to leave the European Union and the spread of opposition to globalization have worried central bankers and many mainstream economists who feel that the problems associated with globalization have overshadowed the benefits and morphed into broad opposition to it.

Remedies for these issues may be outside the immediate sphere of monetary policy, but they are concerned that new waves of protectionism or reckless deregulation could threaten an economic system that is currently stable and that has returned to growth across the world. —Reuters