

Quick Thoughts on Venezuela's Regime Change

In a Nutshell:

- **Regime change in Venezuela** is set to deliver **sizable energy** and **flow-through AI advantages for the US**, and notably **at the expense of China, Russia, Iran** and the **wider "Global South"**.
- **Geopolitical tensions in LatAm, possibly even for Greenland**, will likely be **elevated**. But arguably, **China bears the brunt from the Venezuelan incursion** resulting in regime change.
- For one, **China's energy security is compromised** at the margin whilst the **US gains significant energy dominance advantage** from **Venezuela's heavy crude that its refining infrastructure is wired for** (and in dire need of).
- And this **spills over as critical advantages in AI/tech/industry**, all deemed **critical for geo-political dominance**.
- Moreover, denying China access to Venezuelan oil has **accentuates China's energy-shipping risks** as all its **other crude imports are exposed to key "chokepoint" risks** (e.g. Straits of Malacca).
- Notably, the **notion that Venezuela offers China a "blueprint" on Taiwan is false equivalence**. Beijing will not hastily act as it remains **committed to the longer game**.
- Subdued Oil Price Impact: **Despite the potential to exploit Venezuela's massive oil reserves** by the US Oil Majors, **oil price impact will be muted** on account of;
 - i. Requisite infrastructure ramp-up takes time;
 - ii. AI devours pipeline supply expansion;
 - iii. OPEC/Saudi likely calibrate to steady prices, and;
 - iv. China (opportunistically build oil reserves on price dips
- USD Underpinned: A perverse confluence of **marginal petro-dollar boost** (from Venezuelan Oil to China denied), **haven allure** (amid elevated LatAm geopolitical tensions) and **antagonistic boost from China's disadvantage** is likely to **provide the USD a marginal boost**, to effectively temper interim slippage from Fed cuts and dampen structural debasement drag.

US-run Venezuela

- Never mind, New Year resolutions. 2026 has effectively opened with regime change in Venezuela.
- A **US-run Venezuela** (whose ex-President Maduro now faces indictment in the US), with **US Big Oil now poised to reclaim** (oil assets) and **reinstate capacity in the Venezuelan oil sector**, is a reality that the world is now confronted with.
- It is by now **beside the point whether this this regime change** - with the US military-driven overthrow of an arguably illegitimate, Maduro Administration - is merely an audacious coup or imperialist asset grab.
- What's pertinent is that;
 - 1. It **cannot be undone**;
 - 2. **Uncertainty over the transition to self-governance may linger**;

3. Tactically, the *US has enhanced its energy security at the China's expense*, and;
4. *Geopolitically, China, Russia, Iran* (and more broadly, the "*Global South*") are *disadvantaged* while *LatAm* and *Greenland* are arguably *even more compromised*, albeit at a high cost of lost moral high ground to the US.

Oil - A Big Deal ...

- Make no mistake, the **ability to secure Venezuelans oil assets** is a very **big deal for the US** on three counts.
- First, **Venezuelan heavy crude is precisely what the US oil refining infrastructure is set up for, and in dire need of** given the current constraints with regards to Canadian and Mexican oil supplies (whereas US light crude, while being pumped at record rates does not satiate US industrial needs).
- Second, **US' privileged access is a key advantage to Venezuela's oil assets – which boasts the largest oil reserves in the world – as the immensely energy-intensive and geo-politically critical AI race (especially against China) gets underway.**
- Finally, with Venezuela's oil comes the **projected shipping advantage** – both **absolute and relative** (in terms of China's energy shipping risks).
- The former is the obvious *proximity advantage for the US*, to exploit Venezuelan oil.
- Crucially, the relative advantage in the form of *China's energy/shipping security compromised may be more significant.*
- Notably, without Venezuelan oil (of which China consumes more than two-thirds of) the **rest of China's oil imports effectively all subject to the shipping choke point risks of the Straits of Malaysia.**

Oil - ... but No Big (Price) Swing

- **But as a big deal as US' appropriation of Venezuela's oil assets** (to be more intensively exploited by US Oil Majors/investments) **are**, the **price impact may be limited.**
- And this is certainly not just because of *Venezuela's relatively meagre production is at a mere 0.8% of global production* (~1MBpD) compromised by decrepit infrastructure alongside sanctions.
- Or that even with US Big Oil investments, the **infrastructure renewal of required to exploit the reserves will take time to get production capacity up to speed** (from ~1MBpD to its pre-Socialist height of >3MBpD).
- More importantly, because even if **pipeline supply ramp up** is realized, it **may be predominantly mopped up by burgeoning AI demand**, is *unlikely to meaningfully add to available global supply.*
- Hence, **US appropriation of Venezuelan oil assets is likely to have little downward sway prices.**
- In any case, **near-term price downside** may be *offset by OPEC/Saudi calibrations* and/or *China's inclinations to ramp up oil reserves on price dips.*

China, Not Taiwan, Compromised

- **Arguments that Venezuela is a blueprint for Beijing to act on the "One China" policy with regards to Taiwan**, is not just a **misguided equivalence**, but *in fact insulting Beijing.*
- Point being, **Beijing sees Taiwan as a rightful part of itself unlike US incursion on Venezuela's sovereignty.** So, the "legitimization" of a forceful take-over is neither valid, nor will it be a knee-jerk trigger.

- What's more, the **ability of US Oil Majors to earn returns from** (eventually self-funding) **investments in Venezuela's oil assets** suggests **further USD boost**.
- More consequentially, **China is now arguably dealt blows** in terms of; i) its *secured oil supply from Venezuela forgone*; ii) *shipping risks mitigations compromised and crucially*; iii) *AI/industrial advantages setback by US'* **reinforced energy dominance**.

(Petro-)USD Boost?

- To be sure, the **FX impact from Venezuela's regime change is not expected to be substantial**. But *at the margin*, this ought to be **USD positive**.
- For one, **cutting off China's purchases** will **likely add** (albeit modestly) to the **Petro-Dollar support for the Greenback**.
- What's more, the **ability of US Oil Majors to earn returns from** (eventually self-funding) **investments in Venezuela's oil assets** suggests **further USD boost**.
- There is arguably also **a broader haven premium**, **perverse or otherwise**, now arguably **associated with US "big stick" policy in LatAm**.
- Finally, **compromised Chinese advantage on the energy/AI/industrial stage** also **ought to underpin the USD**, *given the antagonistic relationship between China-CNY and US-USD*.

Albeit Subject to Fed & Fiat Debasement Risks

- To be clear, that **does not mean USD will be bullet-proof if the Fed turns out to be more dovish** than markets expect (which is our base case).
- Crucially, **underlying USD soft spots on concerns of USD debasement** will also remain intact to *underpin a structural downtrend further out*.
- But this **reinforces our view of controlled** (and subdued) **softening** (to ~95 DXY), **rather than a crash** (to ~90/sub-90 DXY), in the USD ahead – **even with fairly significant Fed cuts**.

A Limited Geopolitical "Gift" (for the US)

- All said, **US strike on Venezuela to overthrow the regime** (and appropriate of the oil assets) **benefit from the shadow of an oppressive and economically dysfunctional regime**.
- What's more, the *fortuitous geo-political advantage* (ability to compromise China. Russia and Iran in one fell swoop) combined with *geological endowments* (the world's largest reserves of "heavy" crude") accentuate **US gains**.
- But this **geopolitical gift for the US** will be **harder to replicate elsewhere**, which means that blowback risks from further, unilateral US aggression could begin to mount from here.

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