YAHOO!

Venezuela just issued $5 billion in new debt. Here's why it may make some US oil refiners nervous

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For crisis-hit Venezuela, the new year appears to look a lot like the old, with civil strife, food and medicine shortages, and a brutal recession battering the oil-rich economy.

However, there's one development that adds a new wrinkle to Venezuela's rapidly deteriorating situation. In a surprise move this week, the cash-strapped country issued sovereign bonds for the first time in five years**, to the tune of $5 billion.**

The deal dovetailed with a separate decision by the government to pledge a nearly 50 percent stake in Citgo, its U.S. refinery subsidiary, as collateral for a loan from Rosneft, Russia's state-controlled energy company. The Citgo collateral deal is **already being challenged in court by U.S. multinationals, The** Wall Street Journal reported this week,

To some, it may seem like another last-ditch effort to keep lights on in Caracas, but market watchers say the arrangement is one to watch for several reasons.

Russia's contentious relationship with the U.S., combined with Venezuela's own long-standing antipathy toward the world's largest economy, could mean trouble if Venezuela fails to make good on its debts. Citgo — owned by Venezuela state oil company Petroleos de Venezuela SA (PDVSA) — is also a major U.S. oil refiner, and in theory could find its assets seized by Russia.

"If anything goes off the rails, the Russians will call the tune and pick up the pieces," Steve Hanke, a Johns Hopkins economics professor and director of the Troubled Currencies Project at the Cato Institute, told CNBC.

"The Russians are very smart and know how to structure air-tight deals in cases like this," he added.

Then again, 2017 could also be a year of upside surprise from Venezuela. Markets are watching President-elect Donald Trump's ascension with baited breath, and his policies will likely reverberate through Latin American capitals. Mexico, for example, has had to bolster its peso in markets, amid whiplash stemming from Trump's tough talk on trade and immigration.

In the midst of Venezuela's turmoil, President Nicolas Maduro's ruling United Socialist Party (PSUV) has found itself isolated and deprived of political support—something investors say is a good thing on balance.

"Venezuela is in better shape financially because recent opinion polls show that PSUV is no longer the most popular political party in the country," said Jan Dehn, head of research at Ashmore Group, an emerging market specialist investment firm.

"Since Venezuela needs a new government the decline in PSUV's approval rating brings regime change closer," he added.

While the Citgo tie-up may put investors and market analysts on notice, investors mainly invest in dollar-denominated bonds issued by the sovereign and PDVSA, minimizing the fallout. Also, the prospect of tighter U.S. monetary policy may not sting as much as some might expect.

"The main external risk is oil prices," Dehn said, with benchmark prices hovering above $50 per barrel. "U.S. interest rates do not matter much at this point, because the Venezuelan bond [already] trades at extremely wide spreads."

Yet the U.S., despite being where Citgo's pipelines sit, is not too much at risk should the agreement go awry, market watchers say. "It is a big stretch" to argue that Citgo cannot engage in any financial transactions if Venezuela ends up in hock to Russia, Dehn said.

With Venezuela still appearing willing to pay its bills to avoid a potentially crippling Argentina-style default, "I think deals involving Citgo as collateral will not fall through," Dehn added.

Venezuela is also very likely to continue to have the support of China, which views the country as a long-term investment.

Most investors are likely focusing on Venezuela's ability to finance its external liabilities, while dealing with extreme pressure on its citizens.

Simon Quijano-Evans, emerging markets strategist at Legal & General Investment Management, told CNBC that even with higher oil prices "all this is ultimately a function of how long the country's foreign exchange reserves can finance the domestic and external shortfalls, or how much Venezuela is able to secure in new bilateral loans."

Still, Venezuela could run into other roadblocks this year, with Maduro fending off intense political pressure to step aside and its financing options dwindling.

"2017 is more of a decisive year for Venezuela than previous years, as reserves" are running low, and barely cover external debt payments for the year, Quijano-Evans told CNBC.