



Figure 2: Outstanding Petrobras bond issues covered by Deutsche Bank

Issue	Maturity	Amount O/S	Mdy/S&P/Fitch	DB Rec. / Date of Rec.*	Mid Price	Mid Yield	Z-spread	Sov Sprd
PETBRA 2.000% Notes '16	20-May-16	USD 1,250m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	96.57	6.94	656	535
PETBRA 3.875% Notes '16	27-Jan-16	USD 2,500m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	98.77	6.30	601	532
PETBRA 3.250% Notes '17	17-Mar-17	USD 1,600m	Ba2 / BB / BBB-	Buy / 7-Oct-2015	90.88	9.82	924	731
PETBRA 3.500% Notes '17	6-Feb-17	USD 1,750m	Ba2 / BB / BBB-	Buy / 7-Oct-2015	91.85	9.79	923	736
PETBRA 5.875% Notes '18	1-Mar-18	USD 1,750m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	90.76	10.07	925	690
PETBRA 3.000% Notes '19	15-Jan-19	USD 2,000m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	79.57	10.34	931	670
PETBRA 7.875% Notes '19	15-Mar-19	USD 2,750m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	92.14	10.48	944	679
PETBRA 4.875% Notes '20	17-Mar-20	USD 1,500m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	80.54	10.30	905	619
PETBRA 5.750% Notes '20	20-Jan-20	USD 2,500m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	82.39	10.85	963	680
PETBRA 5.375% Notes '21	27-Jan-21	USD 5,250m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	79.85	10.27	888	587
PETBRA 4.375% Notes '23	20-May-23	USD 3,500m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	72.50	9.42	769	439
PETBRA 6.250% Notes '24	17-Mar-24	USD 2,500m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	79.51	9.78	800	461
PETBRA 6.875% Notes '40	20-Jan-40	USD 1,500m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	72.88	9.76	751	324
PETBRA 6.750% Notes '41	27-Jan-41	USD 2,250m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	72.16	9.66	740	310
PETBRA 5.625% Notes '43	20-May-43	USD 1,750m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	67.44	8.71	639	202
PETBRA 7.250% Notes '44	17-Mar-44	USD 1,000m	Ba2 / BB / BBB-	Hold / 13-Jan-2015	74.39	9.91	766	326
PETBRA 6.850% Notes 2115	5-Jun-2115	USD 2,500m	Ba2 / BB / BBB-	Hold / 7-Oct-2015	69.00	9.85	761	736

Source: Deutsche Bank. Market data indicative (mid side) as of October 6, 2015.

Idiosyncratic, technical and market reasons for the recent bounce

After falling by 5-15 points (depending on where on the curve you look at, excluding the '16s) since our last piece ([Petrobras – The USD44bn Falling Knife, 15 September 2015](#)) Petrobras' bonds rebounded by 4-13 points in the last six sessions on the back of 1) last week's domestic fuel price increase announcement (6% for gasoline and 4% for diesel at the refinery gates); 2) a ministerial reshuffling in Brazil aimed at pleasing the government's key coalition party (PMDB) and that could buy the government more time to negotiate its fiscal adjustment agenda in congress and avoid a presidential impeachment; and 3) a retracement in global risk aversion following more benign headlines in global credit (particularly on Glencore) and China (better-than-expected PMI), as well as a more dovish market view on future Fed hikes following a weak payroll number last Friday. Further enhancing the conviction of marginal buyers was a growing perception that forced index fund liquidation might be close to running its course and that the company would be close to announcing further capex and cost reductions, which happened on Monday.

Still high execution risks for the Brazil-Petrobras complex serve to cap the near-term upside

In our view, while the short-term momentum has improved for the Brazil-Petrobras complex due to the factors listed above, we believe the execution risks for the government to stabilize the fiscal and macro dynamics and for the company to significantly reduce its heavy cash burn and fund tens of USD billions of debt maturities in upcoming years remain important points of concern and serve to cap the near-term upside for Petrobras. Further weakness in the oil price and the BRL are also important risks here. We are thus not fully convinced that Petrobras is embarking on a sustained near-term spread tightening at this point, but rather believe that we will continue to see high price volatility without a clear trend. The fuel price increase announcement helps (by increasing revenue and EBITDA by about 2% and 9%, respectively, or USD1.7bn) but is not enough, in our view, to meaningfully reduce the company's cash burn (of about USD4-5bn per year with capex at USD19bn and Brent at USD50/bbl). Another fuel price increase might prove difficult to achieve in the near term due to political and economic constraints, in our view, as it would be non-accretive to inflation targets and would pose further stress on the already fragile domestic demand.