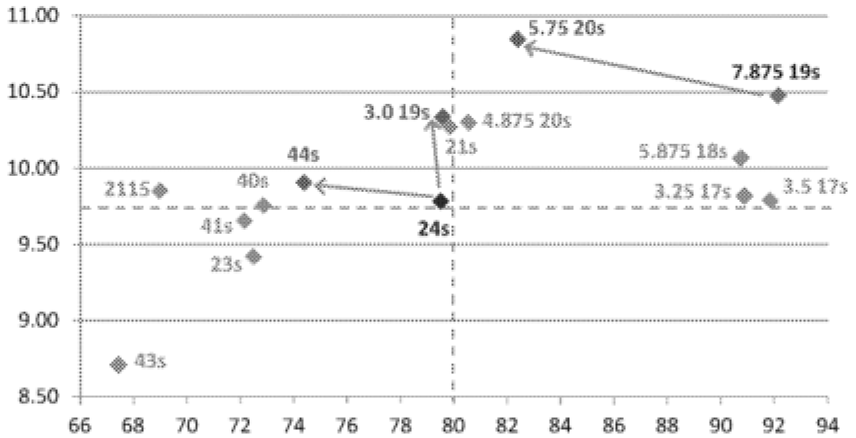
are compelling enough to compensate for the company's maturity wall (USD60bn in four years and USD104bn in nine years), subordination risk and the significant challenge to contain its cash burn and sell a sizable amount of assets in a scenario of Brent price under USD55/bbl, all in absence of a material show of support from the government, which we fear that might not come anytime soon. In other words, albeit a timely show of government support and a meaningful improvement in the oil price or the Brazilian macro/fiscal dynamics, we believe the Petrobras curve should be steeper beyond the 2018 maturities (it is now flattish). In any case, Petrobras' longer-dated bonds may continue well supported in the near term on the back of the recently improved momentum for the Brazil-Petrobras complex and their lower bond prices (relative to the front end of the curve).

We initiate the following pair trades: out of 7.875 '19s and into 5.75 '20s, out of '24s and into 3.0 '19s, and out of '24s and into '44s

The 7.875 '19s to 5.75 '20s switch offers a price take-out of about 11.5 points and an yield pick-up of about 35 bps for a one-year maturity extension. The '24s to 3.0 '19s switch offers an important maturity reduction of about five years and an yield pick-up of about 55 bps, for virtually no change in price. The '24s to '44s switch offers a price take-out of about 5.0 points and a spread pick-up of about 10 bps. It is important to mention that only about 10% of Petrobras' debt is due beyond 2024 and by 2044, which mitigates the maturity extension from the '24s to the '44s, in our view.

Figure 1: Petrobras – Yield vs. Price and Pair Trade Ideas



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

Key risks

In our view, the key negative risks to Petrobras include weaker-than-expected oil prices, production and USDBRL, as well as further deterioration in the Brazilian macro/fiscal dynamics, which could question the Brazilian government's ability to provide timely support to the company. High leverage (above 4.5x net debt to EBITDA), negative free cash flow due to heavy capex, a large maturity wall (USD60bn in four years and USD104bn in nine years), and the possibility of significant subordination are important risk to bondholders. Petrobras has only one investment-grade rating (BBB- by Fitch) and two non-investment-grade ratings (Ba2 by Moody's and BB by S&P) and ratings upgrades are not likely in the near term, in our view. The key positive risks to Petrobras include a faster-than-expected rebound in oil prices, ability to increase domestic fuel prices in excess of FX devaluation and cost inflation, higher-than-expected proceeds from asset sales, and a timely show of support from the Brazilian government.