



HY Energy index at more realistic levels as 2016 OPEC deal exuberance fades
 In our 2017 Outlook report, we took a cautious stance on the sector considering the HY Energy index was trading only ~30 bps wide of the overall HY Index, comparable to the relative spread seen during 1H-14 (\$100 oil). As it turns out, exactly a year later, the spread has widened to ~50 bps, though on fundamentals the E&P sector is on much more solid footing vs. a year ago. For one, the modest bullish oil case is playing out as expected – maybe even slightly better (2018 WTI strip is \$56.19 currently vs. \$54.46 a year back). The oil market has dodged the major downside and we now stand one year closer to a potential market rebalancing. Second, companies continue to make progress on the operational front with lower cost and increased productivity (discussed later).

The parity versus the HY Index persisted through Q1 17 (average spread of ~22 bps), actually trading flat at one point. The market started turning more cautious around May as the 2018 WTI strip fell well below \$50 (\$47.57 the first week of May). The next correction, in June, was even sharper with the 2018 oil strip getting close to \$45, resulting in the HY Energy-HY Index spread touching the 2017 high of 140 bps (June 21st). With the reminder that downside risks to the oil markets had not gone away, sector valuation has turned more level-headed – even as oil has stayed above \$55 (2018 strip), the HY Energy Index continues to be fairly wide of the early-year tights. In fact, current levels are actually comparable to early June, when WTI 2018 strip was more than \$5/bbl lower than it is today.

Figure 1: WTI oil vs. HY Energy-HY Index spread

Date ending	10-day average		
	2018 WTI	HY Energy Index	Spread vs. HY Index
			OAS (bps)
12/15/2017	56.15	409	51
12/21/2016	55.01	475	29
1/17/2017	56.47	433	19
2/10/2017	55.58	409	5
3/3/2017	54.47	410	23
4/6/2017	51.13	438	29
6/2/2017	50.27	432	51
5/16/2017	49.09	429	45

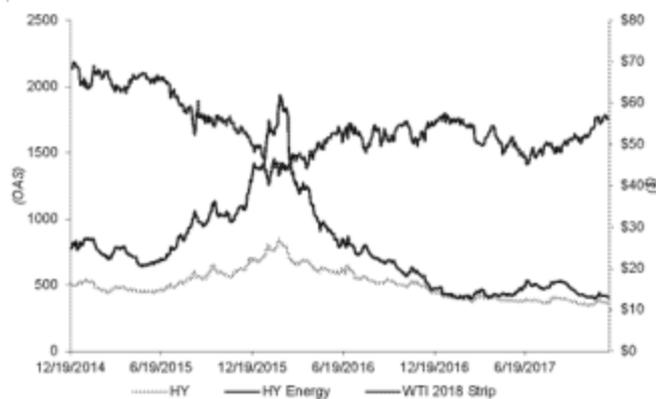
Source: Bloomberg Finance LP, Deutsche Bank

Figure 2: 2017 HY Energy-HY Index spreads – tightest and widest YTD

Date	2018 WTI	HY Energy Index	Spread vs. HY Index
			OAS (bps)
12/15/2017	56.19	410	50
12/15/2016	54.46	471	30
HY Energy - tightest YTD (2/1/2017)	56.13	404	(0)
HY Energy - widest YTD (6/21/2017)	45.1	531	140

Source: Bloomberg Finance LP, Deutsche Bank

Figure 3: Historical spread levels: HY and HY Energy vs WTI price



Source: Deutsche Bank, Bloomberg Finance LP

Figure 4: HY Energy-HY Index spread since Nov '16



Source: Deutsche Bank, Bloomberg Finance LP