



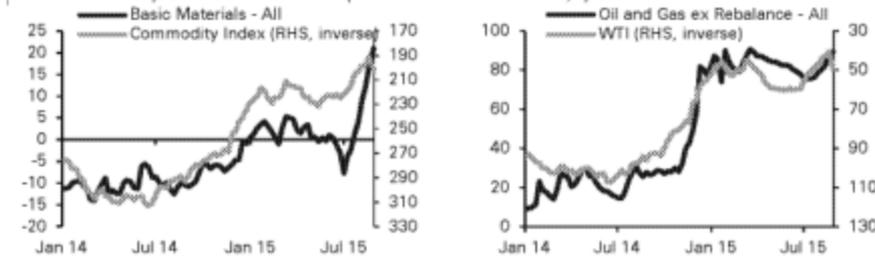
## IG Commodity Bonds: Value in the Vol?

Whilst EUR HY has very limited exposure to commodity related issuers, the EUR IG credit market has a more material exposure, albeit still notably less than the USD credit market. Here we take a look at the impact of the sell-off on these EUR IG commodity related names and potential opportunities.

IG commodity bonds during the commodity sell-off  
 Amid generally weak performance in the EUR IG credit market over the past few months, bonds issued by basic materials and oil and gas issuers have been amongst the worst performers.

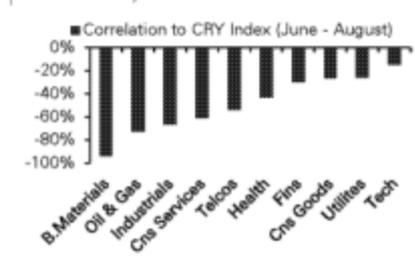
The sell-off has been driven by the resumption of steep declines in commodity values. The tight relationship between the sell-off in commodity markets and of commodity companies' bonds can be seen in Figure 21 and Figure 22.

Figure 21: Basic Materials and Oil and Gas\* IG Bonds ASW spreads minus iBoxx IG Corporate All index spread vs commodity prices



Source: Deutsche Bank, DSIQ, Bloomberg Finance LLP / \*Note - here we rebase the oil&gas sector spreads to account for the downgrade to HY (and therefore out of the index) of two major oil and gas names

Figure 22: Correlation by sector to commodity index

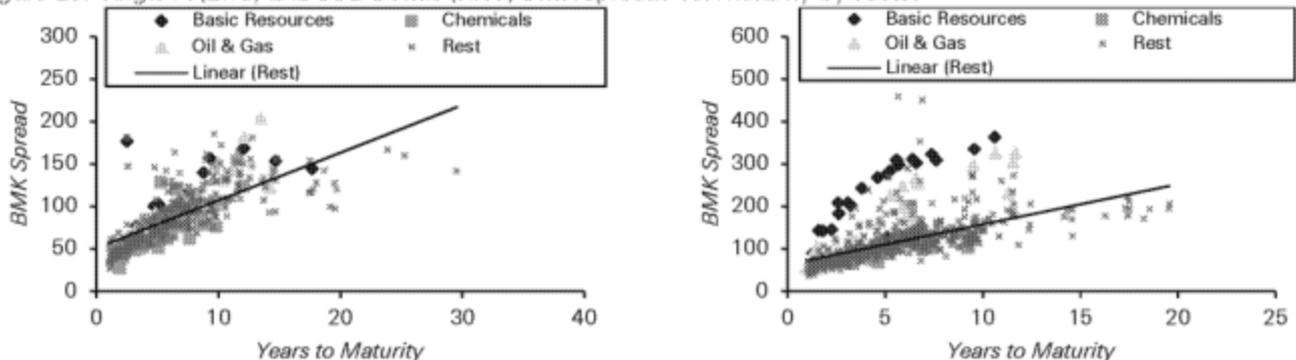


Source: Deutsche Bank, DSIQ, Bloomberg Finance LLP

Single-A and especially BBB commodity bonds trading as if already downgraded

For this analysis we focus on non-financial, non-subordinated bonds only. What is clear is that IG basic resource and oil and gas bonds are trading much wider than the rest of the market now, especially in single-As and BBBs (Figure 23). Single-A commodity bonds are quite wide vs. other single-As whilst oil and gas and especially basic resource BBB bonds are trading very wide vs. the rest of the BBB market.

Figure 23: Single-A (LHS) and BBB Bonds (RHS) BMK spreads vs. maturity by sector



Source: Deutsche Bank, Mark-it Global

The market is clearly trading with a palpable fear of downgrades, especially in BBBs where the potential downgrade to HY is particularly stark. You can see