



Figure 26: Single-A and BBB Oil and Gas Bond Breakdown*

		Rating					
Number		A+	A	A-	BBB+	BBB	BBB-
Outlook	Negative	0	0	0	0	6	0
	Stable	0	10	17	7	3	4
	Positive	0	0	4	0	0	0

		Rating					
% Bonds in Band		A+	A	A-	BBB+	BBB	BBB-
Outlook	Negative	0%	0%	0%	0%	30%	0%
	Stable	0%	32%	55%	35%	15%	20%
	Positive	0%	0%	13%	0%	0%	0%

Source: Deutsche Bank, Bloomberg Finance LLP, Mark-it Global/*Note – "stable" outlook includes "non meaningful outlooks"

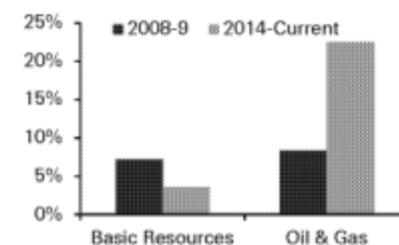
In single-As the market's fears at present are not being reflected in rating agencies outlooks or actions. None of the index single-A bonds are on negative watch at present.

In BBBs the market's concerns are more justified with 50% of basic resource bonds and 30% of oil and gas bonds on negative watch. 42% of the BBB basic resource bonds are in the most obvious "danger zone" being BBB- rated and on negative watch with at least one of the major agencies.

However even if we exclude these bonds we are still left with a good portion of the market which is trading with a fear of downgrade which isn't (so far) being reflected in actual rating agency concern.

Second we can see what happened during the last major commodity crash in the heart of the global financial crisis. From June 2008 to February 2009 commodity prices (as measured using the CRB index) fell 54%. Of those bonds that were in the EUR IG iBoxx index in June 2008 7% of the basic resource and 8% of the oil and gas bonds were downgraded to a lower band by the time commodity prices reached their trough. During the current sell-off (since June 2014) where commodity prices have fallen by around 40% we have seen 4% of the basic resource bonds and 23% of the oil and gas IG bonds downgraded to a lower band (Figure 27). So whilst there is room for further downgrades in the basic resource sector it is interesting to note that in the 2008-2009 period where prices fell much more in percentage terms although to similar levels seen today, and with a major global financial crisis on top we didn't see major swathes of the commodity market being downgraded. The past is never a perfect guide to the present, however it does provide us some comfort that the whole sector is not automatically about to be downgraded on mass in the face of current commodity price weakness.

Figure 27: % of Bonds in IG index at peak commodity prices dropping a rating band by commodity trough



Source: Deutsche Bank, Mark-it Global

Potential Value

Given how commodity bond ratings held up pretty well in 2008-2009 the case for value in the commodity sector appears stronger.

We focus on single-As and BBBs as this seems to be where the most obvious commodity bond value seems to exist vs. the rest of the market. Also we exclude those bonds most at risk of falling a rating band (those rated A-/BBB- and on negative watch). We rerun our earlier analysis looking at how commodity bonds are trading vs. their respective rating bands accounting for these criteria in Figure 28 and Figure 29. It is clear that a number of these better rated commodity bonds are still trading very wide vs. the rest of the market. The market seems to be pricing many single-A and BBB commodity bonds as if they are the same during the current commodity volatility. The