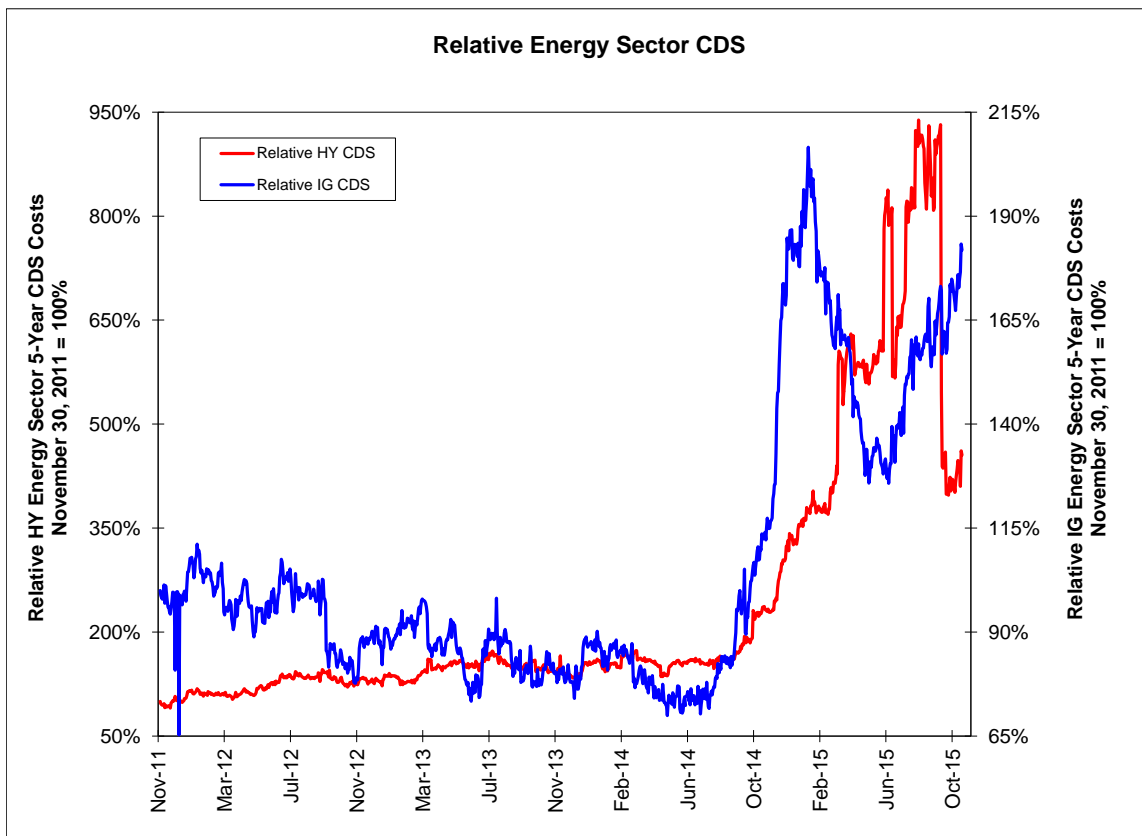




Investment-Grade Energy-Sector CDS Remains Function Of Crude Oil

Eighteen-month crude oil strip prices have retreated 24.19% since May 6, 2015. The relative five-year CDS costs for high-yield energy sector bonds rose to record levels in August-September 2015, but then declined sharply as firms such as Peabody Energy, Kinder Morgan and El Paso were removed from the index.

The relative cost of investment-grade energy-sector CDS vis-à-vis the iBOXX five-year investment-grade CDS index has continued to rise since mid-June but it has yet to exceed levels reached at the end of January.



The investment-grade index' relative CDS costs are trading below their post-June 2014 trend value as a function of eighteen-month strip prices. This is attributable in part to the presence of a number of refiners, pipelines and natural gas producers whose finances have not been affected as badly by the downturn in crude oil prices. However, as integrated, downstream and natural gas-oriented firms come to grips with a more extended period of low prices, we should expect relative CDS costs to rise back toward the exponential trend curve.

Relative Energy Investment-Grade CDS Costs An Exponential Function Of Crude Oil Strip Prices

