

Markit Recap – 11/2/2015

THE LEAD | November 5, 2015

It is a truism that the finances of countries, as well as companies, feel the impact from declining commodity prices. This can be good for energy importing nations, and the positive effect on consumption can boost economic growth.

But for commodity exporters it is obviously detrimental. A prime example is Kazakhstan. The central Asian state was a notable beneficiary of oil prices increasing sharply through the ‘noughties’ and then the recovery after the Great Financial Crisis. As recently as June 2014, Kazakhstan’s 5-year CDS was trading below 140bps, a level consistent with its BBB rating. But little more than a year later, the sovereign’s spreads have more than doubled to trade in excess of 300bps, giving it an implied rating of ‘B’.



The fall in the price of oil has cut government revenues by 40%, and in 2015 the country is expected to run a budget deficit of more than 3% – last year it had a surplus of almost 2%. In response the government moved to a free floating currency in August, and on November 3 announced plans to privatise some of its industrial assets, including state-owned oil and gas companies. This led to Kazakhstan’s CDS spreads tightening to 20bps to 285bps, a relatively modest improvement.

Critics of privatisation often refer to the policy as “selling the family silver”, and some would say that is precisely what Glencore did this week. The commodities trading firm, which also has mining assets, announced a deal to sell rights to its future silver production for \$900m plus ongoing payments. The deal is part of

Glencore's arduous efforts to reduce its large debt burden, which stood at \$30bn at the end of June. Glencore's spreads tightened 118bps to 557bps following the news, an indication that credit investors are more concerned with the company's short-term viability than the medium-term merits of selling its silver resources.

But it is worth remembering that Glencore – always one of the more volatile European investment-grade names – was trading at 150bps during the summer of 2014, and the current spread still produces an implied rating of CCC, according to Markit data. It is making the right moves to placate the credit markets, but it is still beholden to commodity prices, as is Kazakhstan.

Contact: Gavan Nolan

Email: Gavan.Nolan@markit.com