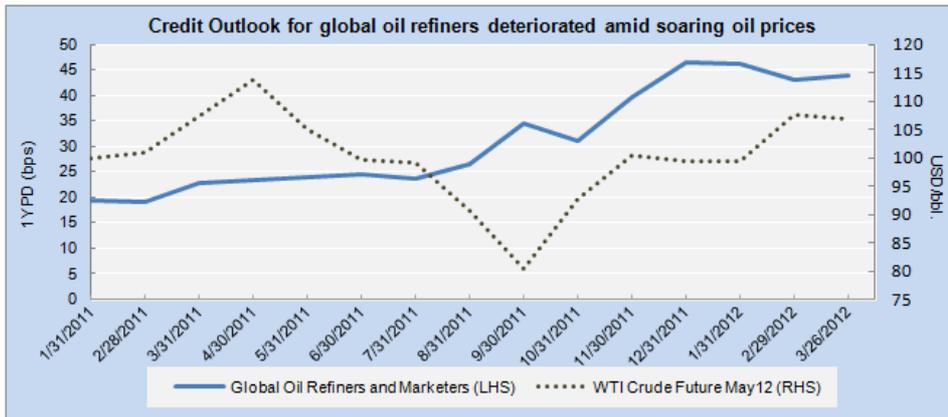


Stories of the Week

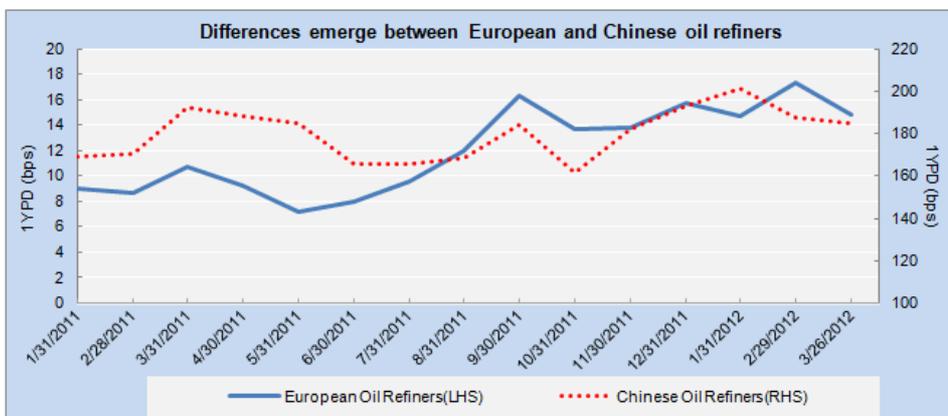
Global oil refiners' credit outlooks remain negative while showing regional differences

The credit outlook for global oil refiners and marketers improved this week, slightly reversing a significant decline over the past few months. After a marked rise spurred by cost pressures from a surge in oil prices since October, the RMI CRI 1-year probability of default (PD) for the oil refinery and marketing sector peaked around the start of 2012 and has since tapered off. Intuitively, a lower RMI CRI 1-year PD signals an improving credit outlook. Continuing signs of an economic recovery in the US and a de-escalation in the European debt crisis in recent weeks, may have renewed optimism in oil markets, placing downwards pressure on the PD since January. A secondary factor could be an apparent deceleration in oil price increases in March, triggered by increased oil production in Saudi Arabia and Libya and weak manufacturing data from China and the eurozone.



Nonetheless, the 1-year PD for the sector remained elevated at 43.7bps on March 26, noticeably higher than its level in last October. It is also significantly higher than the level recorded last March, when global crude oil prices reached similar highs. This could largely reflect adverse sectoral impacts from continuing supply risks arising from US-led sanctions against Iran, combined with demand risks fuelled by a global economic slowdown. A report released last week that showed Iranian oil exports will decrease by 14% in this month spurred a jump in the price of crude oil on March 23, reversing price declines earlier in the week on gloomy China and European manufacturing data. Furthermore, the International Energy Agency recently forecasted a global reduction in demand for oil in 2012, underlining a gloomy revenue outlook for global oil refiners and marketers.

In recent months the sector's credit outlook has diverged geographically, reflecting variances in a range of factors, in particular underlying economic fundamentals and government policies. Europe, where the economy has been sinking under the weight of the continuing debt crisis, witnessed the insolvency of its largest refiner, Petroplus, in January. Refiners and oil retailers are still suffering from the same problems that led to Petroplus' insolvency: low profit margins and sluggish demand. The 1-year PD for European refiners was 14.8bps on March 26, higher than the level of 10.6bps a year earlier, despite crude oil prices reaching similar highs during both periods. This could indicate the sector's credit outlook has worsened as the outlook for the European economy deteriorated in recent months, with the IMF in January lowering its forecast for 2012 annual GDP growth in the eurozone to -0.5% from an estimate of 1.1% last September.



However, in China, adverse impacts from high crude oil prices on refiners are expected to be alleviated in coming months, as the government increased petrol fuel prices by the largest margin in almost three years on March 21. The move should protect profit margins at Chinese refiners; the 1-year PD for Chinese refiners was off January highs on March 26 at 185.1bps, down around 8bps since last March.

Sources:

[Oil falls as Saudi Arabia seeks to calm markets](#) (Reuters)

[Oil slips on China contraction](#) (SMH)

[Crude Spikes After Iranian Exports Report](#) (WSJ)

[World oil demand fell 300,000 b/d in 4Q 2011 as recession grips tighter](#) (EnergyAsia)

[Petroplus debt talks run out of fuel](#) (FT)

[Europe's refiners slow down in February](#) (Reuters)

[IMF slashes global forecast on eurozone crisis, with drastic falls in Italy and Spain](#) (Telegraph)

[China hikes fuel prices by biggest margin in 3 years](#) (ChannelNewsAsia)

In the News

ECB eyes exit for €40bn crisis fund

Mar 21. Signs emerged that the European Central Bank (ECB) is gradually weaning the eurozone financial system off its emergency liquidity support, as it winds down the EUR 40bn asset purchase program. The slowing in the program, which was launched last October to purchase covered bonds, came amid apparent improvements in market confidence after the ECB's injection of more than EUR 1tn into the 3-year longer-term refinancing operations, as well as increasing fears among ECB officials about potential adverse impacts from prolonged central bank support. ([FT](#))

European banks try to get around Dodd-Frank

Mar 21. Some foreign banks with US subsidiaries are finding ways to circumvent the Dodd-Frank capital requirements while maintaining eligibility for bailouts by the US government. One such bank is Deutsche Bank, which last month officially removed the "bank-holding" status of its US subsidiaries in a move that may save the German bank USD 20bn in capital it needs to keep at its US subsidiaries. Barclays is also among banks making similar moves in trying to sidestep Dodd-Frank capital requirements. ([CNN](#))

Banks exploit falling rates to sell bonds

Mar 20. US banks, under pressure to refinance government-backed fundings maturing this year, and to comply with increasing capital requirements, have found favorable funding opportunities, as encouraging results from the recent stress test by the Federal Reserve boosted investor appetite for bank bonds. Relatively high yields on financial bonds, compared with other corporate debt, may also explain renewed investor interest in bank debt. ([FT](#))

Spain May Be Eurozone's Next Source of Contagion

Mar 21. Spain's failure to meet its 2011 budget deficit target, and a recent downward revision of the nation's 2012 deficit target rekindled market jitters last week, pushing Spain's 10-year bonds above 5.5%. This is a clear contrast to yields on Italian debt, which have fallen as market confidence improved over the past few months; some market participants believe Spain may be the next possible source of contagion in European markets. ([the Guardian](#), [FT](#))

Basel Group Said to Set June Deadline for Liquidity-Rule Deal

Mar 21. The Basel Committee on Banking Supervision has set a June deadline to decide on an overhaul of Basel III liquidity requirements, with the committee concerned that delays may affect investor confidence. Proposed changes to the liquidity rules may include expanding the range of assets available to meet liquidity requirements, changes to hypothetical stressed scenarios, amongst other things. Changes stem from a fear that the original rules were too harsh, and that implementation would reduce global lending. ([Bloomberg](#))