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Subject: Fw: (BN) Petrobras Cut to Junk by Moody's as Probe Hobbles Oil Producer
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We have been discussing this potential event for some time now... It should be positive to CDS position.
Great trade Jeffrey.

From: Daniel Sabba (DEUTSCHE BANK SECURI) [mailto:[REDACTED]]
Sent: Wednesday, February 25, 2015 05:19 AM
Subject: (BN) Petrobras Cut to Junk by Moody's as Probe Hobbles Oil Producer

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Petrobras Cut to Junk by Moody's as Probe Hobbles Oil Producer
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By Filipe Pacheco and Sabrina Valle
(Bloomberg) -- Petroleo Brasileiro SA's descent into junk-bond status may be far from over.
Moody's Investors Service kept a negative outlook on the state-controlled oil producer's rating after cutting it to Ba2, two levels below investment grade, on Tuesday. The two-step downgrade marks the second cut by Moody's in less than a month for the company, which is embroiled in a widening graft probe. Petrobras's bonds and stock have plunged since November, when police arrested more than 20 people as part of an investigation into whether company executives demanded bribes from builders in exchange for contracts. Fitch Ratings and Standard & Poor's rate the company at their lowest investment

grades, and internal deliberations on corruption-related writedowns have led to delays in releasing third-quarter results.

“The cut by two notches can be seen as surprising,” Carlos Gribel, the head of fixed income at Andbanc Brokerage LLC, said by telephone from Miami. “The main concern now will be another cut to junk by Fitch or S&P, which could lead the company’s bonds to be sold by many institutional investors.” The probe prompted Chief Executive Officer Maria das Gracas Foster to step down earlier this month, after she failed to broker a consensus on the size of the writedowns. Rio de Janeiro-based Petrobras said in a regulatory filing on Tuesday that it has no bond covenants that would be triggered by a downgrade to junk.

Bond Losses

The oil producer, which has been all but shut off from debt markets due to the probe, has about \$52 billion in bonds. Petrobras’s \$3.5 billion of notes due in 2023 have tumbled 10 percent since November, according to data compiled by Bloomberg. Yields on the debt have surged 1.6 percentage points in that span to 7 percent. The company’s shares have lost 28 percent during the span.

The downgrade by Moody’s “reflects increasing concern about corruption investigations and liquidity pressures,” Nymia de Almeida, an analyst at the rating company, said in a statement on Tuesday. The company will be challenged to make a meaningful reduction in its “very high debt burden” over the next several years, she said.

Petrobras bonds were already trading closer to junk than to investment grade. As of yesterday, yields on the bonds due in 2021 were at 7.31 percent, closer to the average 8 percent yield of companies in the junk-grade Ba category than to the 5.2 percent average for those in the higher Baa bucket.

The rating cut is the latest blow to Petrobras, which became the biggest bond issuer in emerging markets as it sought financing to develop the largest offshore crude discovery in the Western Hemisphere since 1976.

Rousseff Popularity

After years of missing output goals and selling imported gasoline at a discount as part of government policies to tame inflation, Petrobras is now worth just \$45.1 billion. At its peak in 2009, the company’s market capitalization reached \$310 billion, making it the world’s fifth-largest company.

Petrobras was rated as high as A2 at Moody's between 2005 and 2009, the sixth-highest investment grade. In 2011, Moody's rated the company three levels higher than the Brazilian government.

The scandal has added to the woes of President Dilma Rousseff, who served as chairman of Petrobras between 2003 and 2010, the period during which the alleged payoffs occurred.

"Petrobras was already living the perfect storm," Adriano Pires, the head of Rio de Janeiro-based energy and infrastructure consulting firm CBIE, said by telephone from Rio de Janeiro. "Now it is even worse."

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