NUS National University of Singapore | RMI Advancing Risk Management for Singapore and Beyond
Transforming Big Data into Smart Data
Weekly Credit Brief Jan 07 - Jan 13 2014

**Story of the Week**

**Default risk for gold miners increases as gold loses its glitter**

The RMI aggregate 1-year probability of default (RMI PD) for gold miners has increased reflecting a drop in credit quality for these companies. Last week, Moody's lowered its forecast for the price of gold and said that the credit metrics for some gold mining firms are stretched. The credit rating agency would be reviewing its ratings on the sector and might downgrade some of the miners this year, which could lead to higher corporate borrowing costs and put a further strain on earnings.

The RMI PD for the precious metal sector has been rising from a low of 24.70bps in January 2010. The average default risk went slightly below 100bps in the first 2 weeks of January 2014, but continues to be at January 2009 levels. The operating business environment for the largest gold mining companies has been challenging. With USD 15.4bn of borrowings US-based Barrick Gold (click for historical RMI PD), the largest gold mining company in the world by revenue, has already laid-off workers in its head office and various projects through 2013. The company also cut its 2013 dividend by 75%. The company will continue to divest its non-core assets after selling off its Barrick Energy and Yilgarn South mines which brought in USD 701mn for the company. Construction at the firm's flagship Pascua Lama mine has been suspended indefinitely after the project cost the company more than USD 5bn through political opposition, labor unrests and cost overruns.

The sector's second largest company by revenue – US-based Newmont Mining is also struggling with its development projects. Violent protests over the firm's USD 5bn gold mine project in Peru led the management to suspend work on the construction of the mine. Newmont mining reported a huge Q2 loss of USD 2.01bn and took immediate measures to cut costs. The gold miner recently sold its Midas underground operations and mill complex in Nevada in December and liquidated its investment in Canadian Oil Sands in Q3.

The RMI PDs for Newmont Mining and Barrick Gold have increased in tandem with the sectoral aggregate PD since April 2013. Barrick Gold is rated Baa2 at Moody's and BBB at S&P with both CRAs placing a negative outlook on the firm's outstanding bonds. Newmont Mining is rated Baa1 at Moody's (one notch higher than Barrick Gold) and has a BBB rating at S&P with a stable outlook on its company's debts.

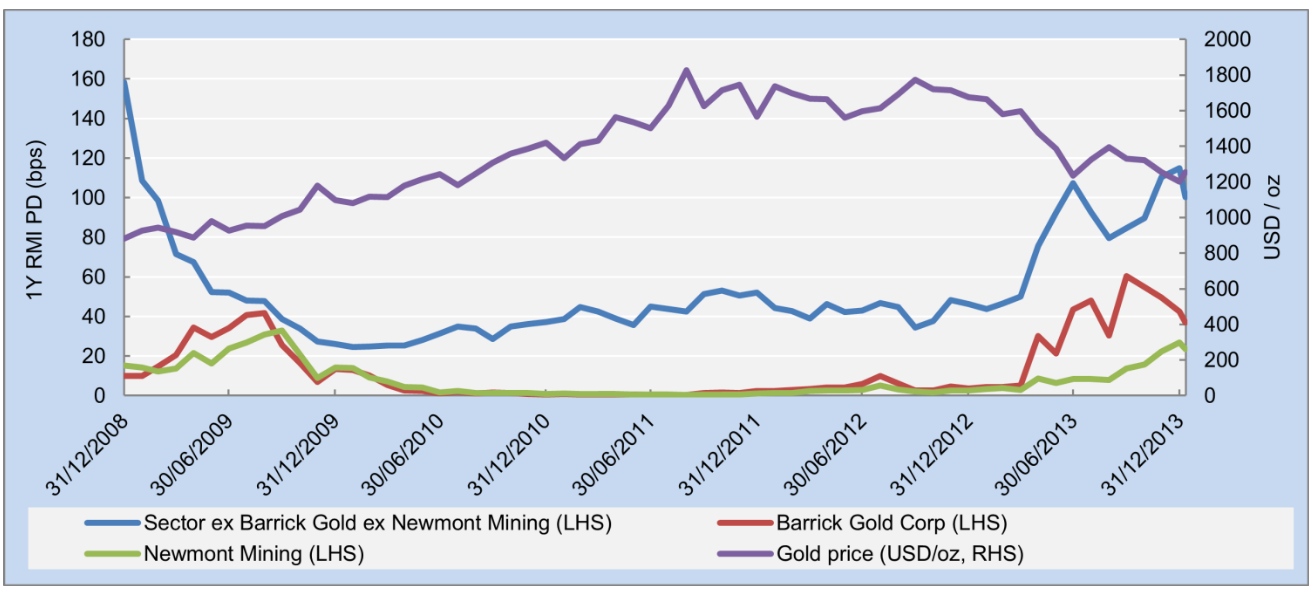

Figure 1: 1-year aggregate probability of default for gold mining companies. *Source: Risk Management Institute*

## In the News

### Banks get a break on leverage-ratio rules

**Jan 12.** The Basel Committee for Banking Supervision said it had revised the definition of its leverage ratio in order to allow banks to report lower levels of overall risk. The leverage ratio measures capital held by a bank against its total assets, so the changes will lead to higher reported capital ratios. That will reduce the pressure on banks to either shed assets or raise more capital to meet the requirement. Banks will have to report their leverage ratios from 2015 onward, and regulators intend to force them to have a ratio of at least 3% starting in 2018, but there is no binding commitment to the latter. (WSJ)

### Brazilian swap rates rise as inflation accelerates

**Jan 11.** Brazil's short-term swap rates rose to a 2-week high after a national statistics agency reported that consumer prices rose 5.91% YoY in December. In October last year, the central bank, Banco Central Do Basil President Alexandre Tombini said that inflation in 2013 would end lower than the previous year's 5.84%. Inflation was higher than expected despite tighter monetary policy introduced by the central bank last year. The central bank has increased borrowing costs by 2.75% since April 2013, the biggest increase among all central banks last year. According to Bloomberg forecasts, policy makers will increase the base rate by another 50bps to 10.5% by the end of 2014. (Bloomberg)

### Argentina bond prices fall

**Jan 10.** Argentina's bond prices plummeted on January 10 after the country reported that its foreign-exchange reserves fell to a 7-year low. The benchmark sovereign bond maturing in 2017 fell 4.6% to 87 cents on the dollar, a 2-month low, according to Markit. The Argentinean peso also fell against the USD in the week ended January 10 to a record low in the black market, where many businesses purchase currency to avoid state controls. Argentina's dollar reserves, the currency the government uses to pay bondholders, fell to USD 30.2bn, a decline of USD 374mn since the start of 2014. (WSJ)

### Petrobras' European foray heralding global shift

**Jan 10.** Brazilian oil producer Petroleo Brasileiro SA sold USD 5.1bn of bonds denominated in EUR and GBP on January 7. The bond sale signals a global push to obtain cheaper debt financing in Europe as the US Federal Reserve's decision to reduce its monetary stimulus increases borrowing costs in the US. As central banks on either sides of the Atlantic are set on diverging paths in terms of monetary policy, emerging-market companies find that it is now about 0.76 percentage point cheaper to sell bonds in EUR and convert to USD than it is to issue in USD directly. Developing-nation debt issuance in European currencies has bolted to the fastest-ever start to a year, according to Bloomberg data. (Bloomberg)

### Shanghai stock exchange issues 'Basel bond' rules for banks

**Jan 10.** In an attempt to offer banks a new avenue to boost capital, the Shanghai stock exchange has set conditions for listed banks to issue bonds on the exchange for the first time. These banks' listed bonds are counted as regulatory capital as the bonds contain write-down provisions that impose losses on bond holders if the bank's financial condition deteriorates beyond certain threshold. The initiative to allow listed banks to meet tougher new capital adequacy requirements which are in line with the global capital requirements known as Basel III. Previously banks could only issue to interbank markets and this move will ease pressure on banks to raise funds. (Reuters)

### Philippines adds to record sovereign debt sales in Asia

**Jan 10.** The Philippines is marketing a sale of USD 1.5bn bonds, adding to the busiest week for Asian sovereigns on record as tapering of US stimulus threatens to increase funding costs. Southeast Asia's fastest growing economy, plans to sell 10-year bonds at a yield of about 4.5%, according to a source familiar with the matter. Indonesia and Sri Lanka have sold USD 5bn of notes this week, the most in Bloomberg-compiled data going back to 1999. (Bloomberg)

**EU plans for trading rules widen global gap in bank regulations**

**Jan 09.** Banks breathed a sigh of relief last week as news of EU plans for regulating proprietary trading are less restrictive than its global counterparts such as the Volcker Rule in the US, giving banks operating in the EU potentially more leeway. The split in policy between the EU and US, as well as Germany, France and Britain, each drafting its own separate rules - serves to highlight the inability of world leaders to fulfill the pledge made at the height of the global financial crisis in 2009 to normalize rulemaking. In addition, the lack of coordinated policy has in turn led to an increase in compliance costs incurred by banks doing business across countries with different regulations. (Reuters)

**Indonesia pays up in record bond sale**

**Jan 08.** Indonesia completed its record USD 4bn sovereign debt auction at a substantial higher yield premium than the offerings of similarly-rated European counterparts. The largest dollar-denominated bond sale by an Asian country excluding Japan, saw USD 2bn worth of 10-year notes sold for a yield of 5.95%, and USD 2bn of 30-year securities sold for a 6.85% yield. On the other hand, yields on 10 year Spanish sovereign bonds, with similar credit rating as Indonesia's bonds, dropped to a multi-year low of 3.8%on January 8. Yields on Italy's 10 year bonds also fell to a 3 year low. (WSJ)

**China tells banks to improve disclosures in shadow-lending fight** (Bloomberg)

**Draghi strengthens pledge to keep rates at record lows** (Bloomberg)

**Korea's household debt surged to record highs for 7 consecutive months (**Business Korea)

**Spanish note yields decline to record lows on debt sale** (Bloomberg)

Published weekly by Risk Management Institute, NUS | Disclaimer
Contributing Editor: Dexter Tan