

Glencore bonds soar as investors like new plan

With a challenging outlook and its investment grade status under threat, new plans announced by Glencore to reduce debt was welcomed by credit markets.

- Glencore’s 5-yr CDS spread has tightened 28% to 315bps
- Fellow miner Anglo American’s CDS spread tightened 10%, but BHP and Rio Tinto stable
- Yield on Glencore’s euro bond due 2020 dropped 65bps, just as approaching junk yields

Commodity house Glencore’s IPO in 2011 was one of the most hotly anticipated of that year. Shares opened at over 500p but have dropped 66% over the last twelve months and are now trading at a paltry 123p as of last Friday’s close. During the same time span, Glencore’s credit risk has quadrupled according to its 5-yr CDS spread.

Investor sentiment had turned sour as slumping commodity prices put Glencore’s operations, credit measures and cash flow in a [precarious situation](#). Glencore’s management reacted this morning by announcing plans to cut its debt position by \$10bn and to issue \$2.5bn of new shares. Also on the cards were plans [to cut its dividend](#) and sell some assets.

Credit reacts

GLCORE 5-yr CDS Conv Spread



Credit markets reacted positively to the news as the deleveraging measures to reduce debt were seen as pro credit. Glencore’s 5-yr CDS spread tightened 28% to 315bps at the latest level according to Markit’s intraday pricing

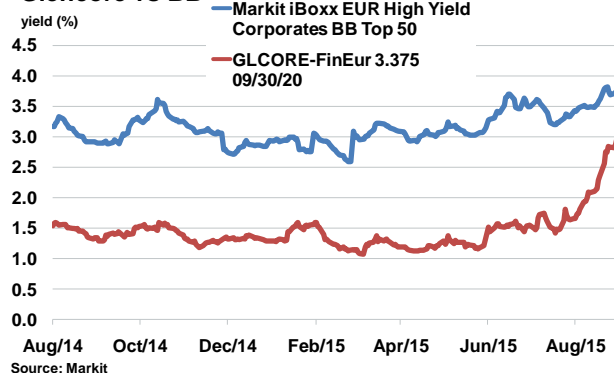
service. Shares also jumped at the open before giving away some gains by midday.

The positivity also saw shares in fellow mining names Anglo America, BHP Billiton and Rio Tinto jump at the open. Anglo American, whose 5-yr CDS spread was very much on par with Glencore’s, saw a 10% tightening as expectations grew that it may follow suit with a similar structuring announcement.

But the two stronger credits, BHP and Rio Tinto, saw little change in their credit spreads which stand at 113bps and 131bps respectively. The last time Glencore’s CDS spread was as low as in September 2014.

Investment grade

Glencore vs BB



The announcement could not come at a better time for investors in Glencore’s cash debt. Glencore’s bonds currently hold BBB rating status, just one notch above junk.

Today's announcement sent yields on Glencore's euro denominated bond due 2020 down 65bps to 2.55%, back to levels seen a few weeks ago, according to Markit's bond pricing service.

The restructuring announcement came just as Glencore's investment grade status was [questioned by S&P](#). Investment grade preservation is important to companies to keep borrowing costs low, remain attractive to investors and to prevent forced selling from investment funds. Yields on the 2020 bond (5-yr) were fast approaching average BB rated bond yields; putting them on par with junk bonds. As of last Friday's close, Glencore's 5-yr bond yield tipped 3.2%, just 52bps shy of the yield on the Markit iBoxx EUR High Yield Corporates BB Top 50 index, which stood at 3.72%.

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