

South Africa credit risk soars; loans continue slide

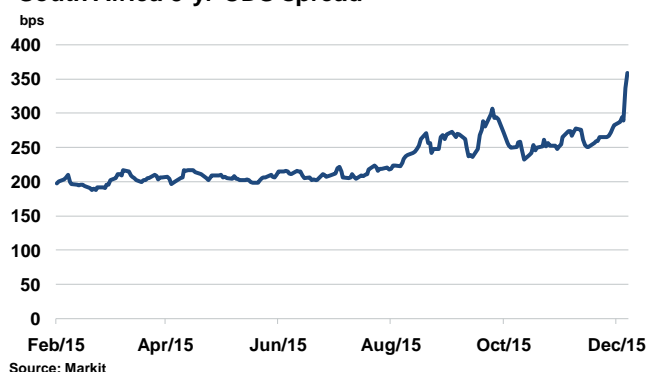
South Africa's economic woes deepened this week on the ousting of the finance minister, while leveraged loans have continued their downward spiral across the second half of the year.

- Departure of SA's finance minister sends sovereign CDS spread soaring above 350bps
- Commodity related volatility has done little to derail 2-yr treasury yields
- [Markit iBoxx USD Leveraged Loans](#) Index's total return for 2015 turns negative

More EM risk

After seeing South Africa's government debt rating downgraded by Fitch to BBB- last week, President Jacob Zuma this week unexpectedly ousted the country's finance minister, Nhlanhla Nene.

South Africa 5-yr CDS spread



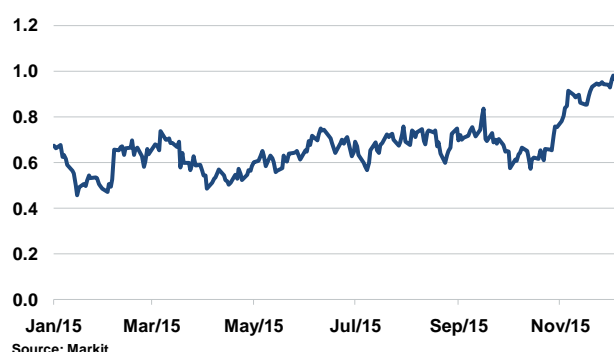
Credit markets reacted with South Africa's 5-yr sovereign CDS spread, a proxy for credit risk, widening 69bps over the last two days. This places the cost to insure South Africa's government debt on par with the likes of Bahrain, and above that of Russia. Credit spreads surpassed 300bps in September amid commodity related volatility, only to resurface this week.

Adding political uncertainty to the mix has seen spreads surpass 350bps according to latest levels from [Markit's CDS pricing service](#). These developments come in the wake of Turkey, Brazil, and Russia, which have all also felt the hefty impact of socio-political turmoil on their economies and financial markets in 2015.

Treasuries remain firm

This week saw the Bloomberg commodities index and the price of oil fall to a new post financial crisis low. High yield bond spreads have widened as a result and emerging market credit risk has resurfaced after the mid-year volatility.

2-r US Treasury yield (%)

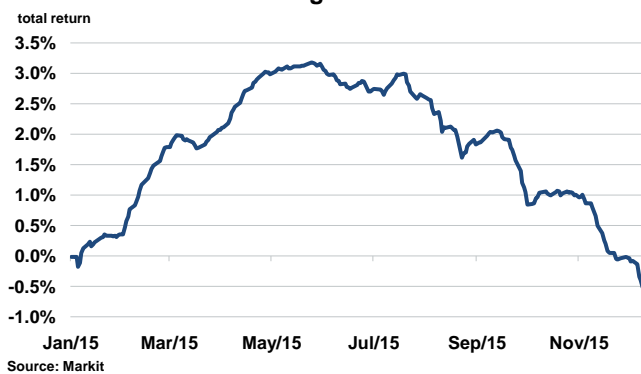


Back in September, the volatility generated in September caused the Fed to delay the inaugural interest rate hike. 2-yr treasuries, the most sensitive to rates, dropped from 0.83% to 0.7% on the day of the announcement. This time around, latest 2-yr rates are 0.95%; highlighting stronger conviction from the market that the Fed won't back down next week, even amid the current resurgent commodities glut.

No joy for loans

There has been no letting up for the riskiest end of the fixed income market in the second half of this year. US high yield bonds, as represented by the Markit iBoxx \$ Liquid High Yield Index, have returned -4.3% this year to date.

Markit iBoxx USD Leveraged Loans Index



Leveraged loans, as represented by the Markit iBoxx USD Leveraged Loans Index, turned negative for the year on November 23rd on a total return basis. In total, leveraged loans have lost investors 3.5% since July.

Despite this performance for the year, leveraged loans may prove to be a favourable risky asset given the asset class' minimal exposure to rising interest rates and relative lower commodity exposure compared to high yield bonds.

Neil Mehta

Fixed Income Analyst

Markit

Tel: +44 207 260 2298

Email: neil.mehta@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.