

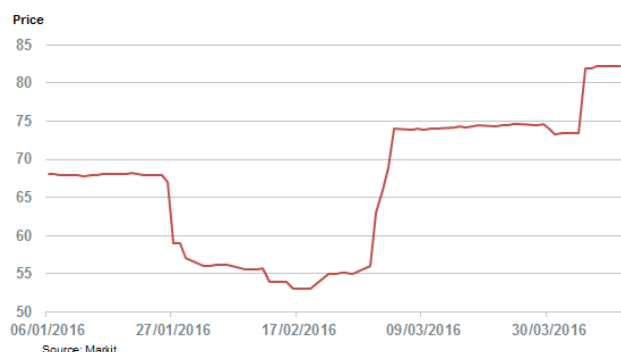
United States Steel municipal bonds regain lost luster

US Steel's municipal bonds have been resurgent as the company's credit spread has returned from the brink.

- US Steel 2042 muni listings have seen their price jump by 55% to 82 cents on the dollar
- US Steel's CDS spread has more than halved from January highs but still very high
- US Steel's municipal bond yields remain much lower than its long dated conventional bonds

The collapse in steel price threatened to hit the municipal bond market as some bonds issued by US Steel saw their price dip below 55 cents on the dollar in February but the recent rebound in commodities has lifted these bonds to new annual highs according to Markit's [municipal bond pricing service](#).

US Steel 2042 Municipal Bonds



These rather niche issuances, which are issued on behalf of corporates are on the riskier end of the municipal bond spectrum owing to the fact that the corporate borrower is responsible for payments with no recourse to the public issuing entity though they carry the tax exempt status of conventional municipal bonds.

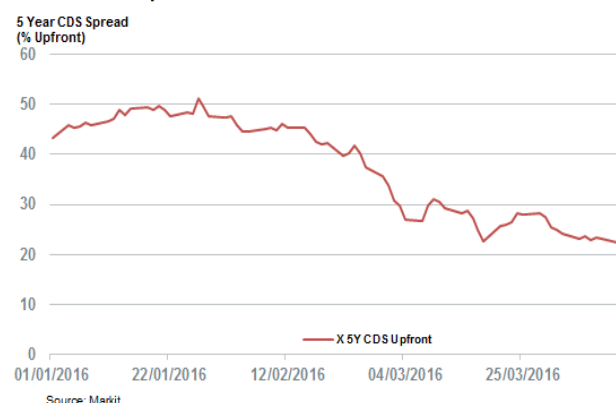
The risk carried by these bonds were evidenced earlier in the year when \$94m of US steel's corporate municipal bonds due in 2042 saw their price slump to a low of 53 cents on the dollar in February as steel prices hit their nadir. However, the last six weeks have seen steel [rebound](#) following steps taken by US legislators to [address](#) cheap Chinese competition, while an overall

stabilisation in the global economy brightened the commodity's prospects.

Not surprisingly, the rebound was reflected in the market risk perception of US Steel's debt as seen by the fact that its CDS spread has more than halved in the six weeks since its year to date highs.

While US Steel is still not out of the woods, as shown by the fact that its conventional CDS spread is still over ten times that of the Markit CDX NA HY index, the fall in CDS spreads highlights that the recent actions taken by legislators have been well received by credit traders.

US Steel CDS Spread



US Steel's municipal bonds have experienced a similar rebound as their value has surged by more than 50% from lows to 82 cents on the dollar. This rebound has taken these bond yields from a high 11.4% to 7.3% as of latest count.

While very high for municipal bonds, the current yield is much less than US Steel's long dated conventional bonds as the firm's 6.65% bond due 2037 is currently yielding 11.6%. The yield difference can be explained by the fact that holders of US Steel's municipal bonds are exempt from income tax something which has still proved popular with investors even in times of distress.

For more information regarding Markit's municipal pricing service please contact:

NY-MunicipalPricingAnalystTeam@markit.com

Simon Colvin

Analyst

Markit

Tel: 207 260 7614

Email: simon.colvin@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.