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Weekly Credit Brief

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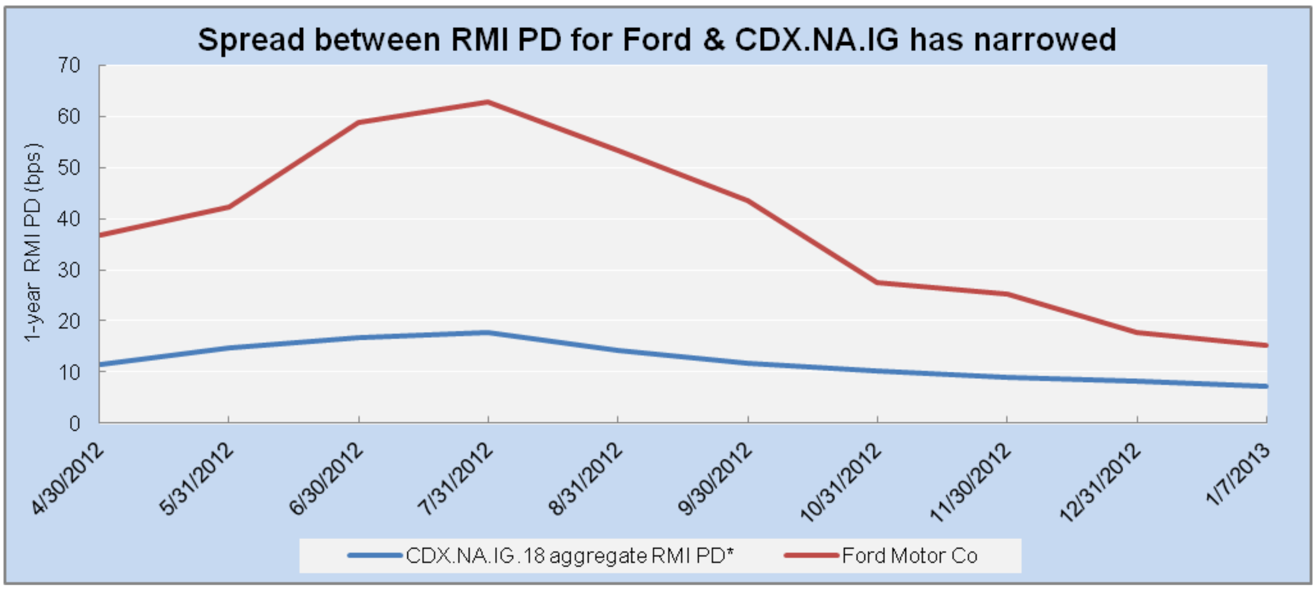
Story of the Week

RMI PD for Ford has improved, in line with investment grade perception

By James Weston

The 1-year RMI probability of default (RMI PD) for Ford Motor Co fell to the lowest level in two years on January 7, as the bond market priced its latest issuance as investment grade, and the company reported strong US sales. RMI PD data reflects this improvement in credit quality, as the spread between the RMI PD for Ford Motor Co and an aggregate RMI PD for companies included in Markit's CDX Series 18 Investment Grade Index* has narrowed in recent months.

Ford was included in Markit's CDX Series 19 Investment Grade index in September after it was upgraded to the lowest investment grade rating by both Fitch and Moody's in the first half of 2012. S&P continues to rate the company BB+, its highest speculative grade rating, with a positive outlook.



The company sold USD 2bn of 4.75% notes due 2043 on January 3 to yield 180bps more than similar-maturity Treasury securities. Bonds with similar ratings and maturities over 15-years yielded 230bps over Treasuries on January 4, according to Bank of America Merrill Lynch index data. Proceeds from the issuance will be used to fully redeem USD 592.7bn of 7.5% notes also due in 2043, reducing interest costs by USD 16mn per year, and to accelerate pension contributions. The company is looking to extend its debt maturity profile from the current weighted average maturity of 5.59 years. This benchmark 30-year sale illustrate the company now has both the market access and favorable pricing to further improve its debt distribution.

Ford has come a long way since 2006, when it had to pledge a number of major assets to secure USD 23.4bn in loans, which helped it avoid the 2009 bankruptcies and bailouts suffered by its domestic competitors. The company has cut costs and jobs, and replaced older models with more fuel-efficient models, including the Focus and the Fiesta. Ford recently reported its US light vehicle sales increased 1.6% during December, exceeding an increase of 1.2% forecasted by analysts.

* The aggregate is a simple average of the individual RMI PDs for companies included in Markit's CDX.NA.IG.18 index, and included 119 of the 125 companies comprising the index on January 7. It is not an exact match due to data issues that restrict the production of RMI PDs for several firms within the index.

However, an ongoing slowdown in Europe, where the company earns about a quarter of its total revenues, has affected overall earnings. The company said in October its European operations would lose around USD 1.5bn in both 2012 and 2013. The company is planning to close three European factories and cut over 6000 jobs, or 13% of its European workforce.

Sources:
Ford issues USD 2bn of bonds with 30-year maturity (Bloomberg)
Moody's tops S&P in Ford's 30-year bond sale (San Diego Source)
Ford announces redemption of its 7.50% notes due 2043 (Ford Motor Co)

In the News

A big week for euro bond issuance

Jan 7. Six eurozone nations intend to sell bonds in the week beginning January 7, in the biggest week of European sovereign bond issuance in four months. Core eurozone sovereigns are looking to lock in rates near record lows, while peripheral countries are looking to take advantage of favorable market conditions. The Netherlands will action EUR 3.5bn of 3-year zero-coupon bonds on January 8. Austria plans to sell up to EUR 1.1bn of bonds maturing in 2022 and 2062 the same day. Germany will auction EUR 5bn of 5-year notes on January 9. Spain will auction bonds maturing in 2015, 2018 and 2026 on January 10. Proposed bond sales by Belgium and Italy on January 11 will see the week out. (Business Times)

UK lenders poised to boost credit: BOE survey

Jan 3. According to a BOE survey, UK lenders plan to increase lending to households and companies in the first quarter of 2013, following a rise in demand for home and business loans in the last quarter of 2012. The survey suggests that the Funding for Lending Scheme (FLS) that offers banks cheap funds to be used exclusively for loans is boosting credit demand as hoped for by policy makers. (WSJ)

Eurozone credit conditions remain strained

Jan 3. Lending in the eurozone still remains in the contraction territory as loans to the private sector fell 0.8% YoY in November 2012. Weak economic growth and high risk aversion from borrowers may have caused the decline in credit demand, according to ECB President Mario Draghi. He also suggested that credit supply is being negatively affected by capital constraints and risk perception. Analysts expect the ECB will hold its benchmark interest rate at a record low of 0.75% at its next rate-setting meeting on January 10, to continue supporting the weakening economy in the bloc. (WSJ)

Global regulator eases liquidity rules for banks

Jan 1. The Basel Committee on Banking Supervision has eased the first global liquidity rules scheduled to start applying to banks in 2015. The Committee widened the definition of the easy-to-sell assets that banks need to hold in periods of stress and has also extended the full application of the new LCR's (Liquidity Coverage Ratio) to 2019. The LCR will be introduced as planned on 1 January 2015, but the minimum requirement will begin at 60%, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2019. (Business Inquirer)

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