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Markit Recap – 4/6/2015

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The macro picture has dominated the credit markets in recent months, but the low interest rate environment is creating conditions ripe for M&A activity and single name stories.

This week saw FedEx buy Dutch rival logistics firm TNT Express for an agreed €4.4bn. The deal, if it is completed, appears to be beneficial for both parties. FedEx gets greater access to the European market, particularly the UK and France, where is has limited penetration. TNT will now have a global distribution platform and FedEx's air fleet, allowing it to compete with large rivals such as DHL and UPS.

From a credit perspective, the clear winner is PostNL. The Dutch firm is the largest shareholder in TNT (14.7%), and will use the proceeds to reduce debt. The CDS market reacted accordingly; the firm's spreads tightened 11bps to 60bps. FedEx has a strong BBB balance sheet, and despite the acquisition being funded by debt, its spreads barely budged at 51bps following the announcement. As the deal approaches finalisation – and it is likely that it will go through – then we can expect the spreads of the two firms to converge.

The strength of the dollar to the euro has no doubt made European targets more attractive for US companies. However, the biggest deal of the year involved two European companies. Royal Dutch Shell agreed to buy BG Group – the former exploration arm of British Gas – for £47bn, creating a combined company worth about £180bn. BG was thought to be a target for US firm Exxon, but Shell's generous cash and shares offer looks to have secured the deal.

BG is a very illiquid name in the CDS market, but it is clear that the combination is credit positive. Shell has a very strong AA credit profile, and its CDS spreads were steady at 50bps after the deal was announced. The decline in the oil price led to some credit deterioration last year, but the damage was limited and Shell has since recovered some ground. Indeed, the low oil price places behemoths like Shell at a competitive advantage compared to weaker firms in the sector, and it would be no surprise to see further consolidation among energy companies this year.

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