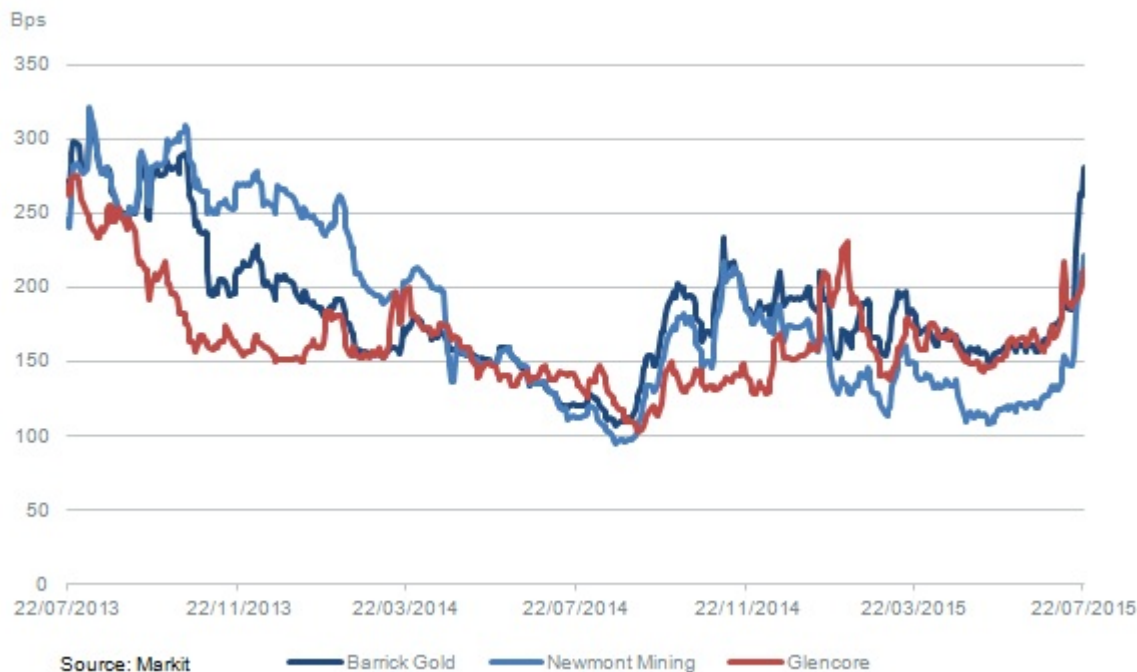


Markit Recap – 7/20/2015

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The all-important deadline of July 20 has passed without incident, Greece having redeemed its debt to the ECB with the help of a bridging loan. This doesn't mean the crisis in Greece is resolved – far from it – but it does give the market some breathing space.

We remarked last week that China may fill the gap temporarily left by Greece, and it has, though in a roundabout way. Commodity names have felt the pressure of China's slowing economy, and the sector was by the worst performing over the last week. In particular, gold producers have seen their spreads widen sharply after the price of the precious metal fell to a five-year low. China is the biggest consumer of gold, and massive selling on the Shanghai Gold Exchange exacerbated the decline that began in US markets.



The troubled Chinese economy (though it is still growing at 7%, according to official numbers) is not the only negative influence on the gold price. Expectations that the US will raise rates this year have inevitably had an impact – perhaps a harbinger of things to come in other asset classes, such as emerging market and high yield debt?

Barrick Gold, the world's biggest gold producer, unsurprisingly was among the main CDS names affected. It saw its spreads widen from 150bps in May to 280bps on July 22, with most of the credit deterioration occurring over the past week. The company has significant amounts of debt, and the drop in the price of gold may affect its ability to sell assets, a key part of its debt reduction strategy. It is an investment grade name but is now trading

with a junk implied rating of 'BB', according to Markit data.

Newmont Mining, a rival of Barrick that it tried to merge with, saw a similar deterioration, though it trade about 60bps tighter. European commodity firms such as Glencore have also seen some spread widening. However, Glencore's diversified businesses and its large trading operation mean that the moves have been modest in comparison.

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