Oil price fall starts to weigh on banks

By Tracy Alloway in New York

Banks including Barclays and Wells Fargo are facing potentially heavy losses on an $850m loan made to two oil and gas companies, in a sign of how the dramatic slide in the price of oil is beginning to reverberate through the wider economy.

Details of the loan emerged as delegates of Opec, the oil producers’ cartel, gathered in Vienna to address the growing glut in the supply of oil.

Several Opec members have been calling for a production cut to shore up prices, but Saudi Arabia, Opec’s leader and largest producer, signalled that while there was a consensus among the cartel’s Gulf members they would not clarify if that meant a push for a big change in the group’s output targets.

Repercussions from the decline in the price of crude, which has dropped 30 per cent since June, are spreading beyond the energy sector, hitting currencies, national budgets and energy company shares.

The price slide is having a serious impact on oil producers that rely on revenues from crude exports to balance their budgets. The Russian rouble has lost 27 per cent of its value since mid-June, when crude began to fall, while the Norwegian krone is down 12 per cent and on Wednesday the Nigerian naira touched a record low.

Companies are also being hit, with BP’s shares down 17 per cent since mid-June and Chevron’s down 11 per cent. Shares in SeaDrill, one of the world’s biggest drilling rig owners, fell nearly 23 per cent on Wednesday as it suspended dividend payments. The company has suffered from an oversupply of rigs as the majors respond to crude’s slide by cancelling projects.

Now banks are also being affected, with Barclays and Wells said to face potential losses on an energy-related loan. Earlier this year, the two banks led an $850m “bridge loan” to help fund the merger of Sabine Oil & Gas and Forest Oil, US-based oil companies.

Investors, however, balked at buying the loan when it was first offered in June and slumping oil prices combined with volatile credit markets in the months since have scuppered further attempts to sell, or syndicate, the loan, according to market participants. Barclays and Wells declined to comment.

With underwriting banks unable to offload the loan to investors, they are now facing losses on the deal as the value of the two oil companies’ debt erodes.

Sabine’s bonds were trading above their face value at around $105.25 in June, but have since fallen to $94.25 – firmly in “distressed” territory. Their yield – which moves inversely to price – has jumped from around 7.05 per cent to 13.4 per cent.

Rival bankers estimate that if Barclays and Wells attempted to syndicate the $850m loan now, it could go for as little as 60 cents on the dollar.

If the banks are not able to sell the loan, they may absorb it on their balance sheets rather than try to sell it into the market.

A separate loan arranged by UBS and Goldman Sachs to help fund private equity group Apollo’s purchase of Express Energy Services was supposed to be sold earlier this week but appears to have been postponed, according to market participants. Goldman declined to comment, while UBS did not immediately return a request for comment.

Marty Fridson, chief investment officer at LLF Advisors, says that of the 180 distressed bonds in the Bank of America Merrill Lynch high-yield index, 52, or nearly 29 per cent, were issued by energy companies.

“There has been a loss of favour for the energy sector,” he said.

Details of the loan come amid concerns about the impact that the oil price fall could have on credit markets and as US regulators have discouraged banks from making riskier loans.

Energy companies have come to account for a much larger portion of the outstanding credit universe in recent
years as oil and gas companies rode low interest rates and tapped eager credit markets to help fund their expansion.

The energy sector accounts for 4.6 per cent of outstanding leveraged loans, up from 3.1 per cent a decade ago, according to S&P Capital IQ. Energy bonds make up 15.7 per cent of the $1.3tn junk bond market, according to Barclays data – compared with 4.3 per cent a decade ago.

Additional reporting by Neil Hume, Anjli Raval and Emiko Terazono

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