

Pemex Bonds Drop as AMLO Fails to Dispel Fears of Cut to Junk

By Justin Villamil and Ben Bartenstein
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Petroleos Mexicanos's bonds fell amid concern the nation will fail to prevent the world's most-indebted oil company from losing its investment-grade status. It edged closer to junk after [Fitch Ratings](#) lowered its assessment late on Tuesday.

Dollar bonds due in 2027 fell the most in almost three weeks, sending yields up 16 basis points to 7.02 percent on Tuesday. The administration of Andres Manuel Lopez Obrador stepped back from offering fresh funds -- proposing instead \$3.5 billion of [tax breaks](#).

"The market was looking for a capital injection, but that wasn't mentioned," said Esther Law, a money manager at Amundi Asset Management in London. "The market was disappointed."



Sentiment for Mexico's currency was also hurt, with the peso sliding the most in almost two weeks against the dollar. It dropped 0.8 percent to 19.1450 as of 10:25 a.m. Wednesday in Singapore, according to prices compiled by Bloomberg.

Pemex has seen crude production fall steadily from a peak in 2004, while racking up [\\$107 billion of debt](#). It's now the biggest borrower of any of the companies and countries in the Bloomberg Barclays EM USD Aggregate index, beating out even Saudi Arabia. On top of all that, Lopez Obrador has suspended a program to open Mexico's oil sector to foreign investment.

Fitch maintained its negative outlook after downgrading Pemex two levels to BBB-, saying the government's measures for the oil company are not enough to offset the deterioration in the company's standalone credit profile.

"There is a significant risk the credit goes below investment grade," said Shamaila Khan, a money manager at AllianceBernstein in New York. "It is one of the largest issuers in EM with close to \$100 billion of bonds outstanding, so that could lead to significant forced selling."

Earlier this month, Pemex announced a potential [capital injection](#) at some point this year. There was a widespread expectation leading into Monday's announcement that more funds would be floated.

Tax breaks were good news, but nowhere near the \$9.9 billion Deputy Finance Minister Arturo Herrera said Pemex would announce, according to Bank of America Merrill Lynch analyst Anne Milne.

"We expect that additional announcement will be made in the near future," Milne said. "We think these measures are very positive, but not nearly enough to offset Pemex's large negative cash flow and declining production."

— *With assistance by Lilian Karunungan, Karl Lester M Yap, and Tomoko Yamazaki*

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