

JUNE 16, 2010, 6:21 P.M. ET

UPDATE: BP Bonds Rally On Dividend Cut And Cleanup Fund

(Adds investor comment on BP shares and bonds)

By Chris Dieterich OF DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--BP PLC (BP, BP.LN) bonds rallied Wednesday after the company agreed to cut its dividend and put \$20 billion into an independently administered fund to help pay for claims as a result of the Gulf oil disaster.

The yield on BP's most-traded issue, a five-year note due in 2013, fell to 7.771% Wednesday from 8.353% on Tuesday, according to data provider MarketAxess. Before news of the dividend and cleanup fund, the yield on that bond had leapt as high as 9.865%. Bond yields move inversely to their price.

BP debt was also helped when Bill Gross, co-investment chief for Pacific Investment Management Co., said the huge bond-fund firm holds "very small amounts" of BP debt, but has recently begun buying one-year bonds issued by the oil company.

Gross, interviewed on CNBC, pointed out that BP's five-year bonds currently yield 6% to 7%, while its 12-month paper has a yield of 10% to 11%.

"At this point, if you can get 10% for one-year paper on BP, we think it's closer to double-A than triple-C" in terms of debt quality, the Pimco executive said. "That's a significant value and we've started to buy some."

The cost of protecting BP's debt also improved late Wednesday, after having soared to its highest level ever earlier in the day.

BP's five-year credit default swaps, or CDS, jumped as much as 26% Wednesday, to 625 basis points from 495 basis points Tuesday, according to data provider Markit. This means investors would have had to pay \$625,000 annually to protect \$10 million of the company's debt for five years, compared with \$495,000 on Tuesday and \$424,000 on Monday.

That cost came down to \$545,000 a year after the company announced the fund and its dividend cut.

Tumult in the market has put off some BP bondholders.

"I think BP is attractively priced, but it's a different type of investment than a blue chip," says Keith Amburgey, a financial planner in Cresskill, N.J., who began selling BP stock in early May, about two weeks after the rig explosion. He says today's announcement is more politics because "\$20 billion doesn't limit its liability."

He said buying might be something for a hedge fund. "It's a high risk, high return type of thing," he says. "It's not something I would recommend for my typical client."

Patrick Spori, senior portfolio manager at American Beacon Advisors, sold BP bonds last week after holding them for nearly a year. "The BP thing became too volatile," Spori said. "We had to limit our risk and it became too political. Since we're high-quality, low-volatility managers, it's hard to justify owning that [company] now."

The news isn't changing the BP holdings of the Florida State Board of Administration, which had about \$103 million in BP bonds and

equities on June 11. "We're pension managers," said Dennis MacKee, its spokesman. "We're looking at this from the risk and investment return stand point."

-Christopher Dieterich, Dow Jones Newswires; 212-416-2611;
christopher.dieterich@dowjones.com

(Katy Burne also contributed to this report.)