

The Australian

BP bonds rally after US agreement

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BP bonds rallied today after the company agreed to cut its dividend and put \$US20 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 per cent today from 8.353 per cent yesterday, according to data provider MarketAxess.

Before news of the dividend and clean-up fund, the yield on that bond had leapt as high as 9.865 per cent. 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.

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

"At this point, if you can get 10 per cent 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 in the New York session, after having soared to its highest level ever earlier in the session.

BP's five-year credit default swaps, or CDS, jumped as much as 26 per cent, to 625 basis points from 495 basis points yesterday, according to data provider Markit. This means investors would have had to pay \$US625,000 annually to protect \$US10 million of the company's debt for five years, compared with \$US495,000 yesterday and \$US424,000 earlier in the week.

That cost came down to \$US545,000 a year after the company announced the fund and its dividend cut.

BP chief financial Officer Byron Grote said during a conference call that the run-up in credit-default-swap spreads had "created some uncertainty" among bondholders about the nature and extent of BP's liabilities for the spill.

"Hopefully this will create a calming effect in those quarters," mr Grote said.

Still, 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, who began selling BP stock in early May, about two weeks after the rig explosion.

He says today's announcement is more politics because "\$US20 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 Sporn, 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," Mr Sporn 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 \$USUS103 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."

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