PICTET 1805

Flash Note

US chart of the week – Debt energised

Energy sector climbs back onto the high-yield issuance podium

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US high-yield debt issuance has picked up sharply this year (+25.5%), amounting to USD 306bn so far.

Energy-sector issuance has risen 80%, thanks to rising oil prices and a pick-up in drilling. Energy is the third-largest sector by issuance this year, neck and neck with financials.

Well-lubricated debt markets have been a key support for the shale boom in recent years, a boom that has been vital for US growth. But many shale players have recently voiced their readiness to adopt a more disciplined approach to oil drilling. Does this mean less tapping of bond markets?

As 2017 draws to a close, it is worth taking stock of this year's highlights. On US financial markets, this year will probably be remembered as 'Goldilocks' time. Financial conditions have been very accommodative. Initial fears about the impact of the Federal Reserve's monetary tightening have faded, since the Fed has hiked rates very gradually amid modest inflation. There has been a noticeable uptick in activity on the US high-yield ('junk') bond market, with a sharp increase in debt issuance. According to Bloomberg data (as of 28 November), high-yield issuance is up a robust 25.5% so far this year, to USD 306bn. Issuance is above levels for the whole of 2015 (USD 286bn) and 2016 (USD 244bn), although it remains below the 2013 peak of USD 378bn.

In particular, the energy sector has posted a solid increase in debt issuance, itself helped by the rise in global oil prices: issuance is already up 80% (to USD 47bn) versus full-year 2016. While below the 2012 peak of USD 61bn (when energy was the top high-yield issuer in the US), this sector has moved from fourth to third place in terms of issuance, running neck and neck with financials (*see chart*). Consumer discretionary has been the top high-yield issuer this year, with USD 58bn so far (up 32% y-o-y).

From a macro standpoint, the question is whether well-lubricated debt markets for energy firms mean increased oil drilling next year. Oil investment is pivotal for the US growth outlook. Shale oil players have recently vowed to be more disciplined with capex. Will they follow through on this new mantra, resisting the appeal of raising even more debt?

Top issuing sectors in the US high-yield bond market, 2011-2017 (to 27 Nov.)

2011	2012	2013	2014	2015	2016	2017
Cons. disc.	Energy	Cons. disc.	Financials	Financials	Cons. disc.	Cons. disc.
Energy	Cons. disc.	Comm.	Energy	Comm.	Comm.	Financials
Comm.	Comm.	Energy	Comm.	Cons. disc.	Financials	Energy
Materials	Financials	Financials	Cons. disc.	Energy	Energy	Materials
Financials	Materials	Materials	Materials	Healthcare	Materials	Comm.
Healthcare	Industrials	Industrials	Healthcare	Tech	Industrials	Healthcare
Tech	Healthcare	Cons. stap.	Industrials	Materials	Tech	Industrials

(comm.: communication, cons.: consumer, stap.: staples, disc.: discretionary). Source: Pictet WM-AA&MR, Bloomberg.

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