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In the immediate wake of the victory of the leftist incumbent Dilma Rousseff in Brazil's Oct. 27 presidential election, the price of Petroleo Brasileiro S.A. equity plunged by 12.3%, while the price of the dollar-denominated Petrobras 6 1/4s of 2024 slipped by 0.4%. Mr. Bond Market, please consult Mr. Stock Market.

We write to update the bearish analysis of Petrobras debt in the Oct. 3 issue of *Grant's*. In it, we contended that Petrobras's creditors were not being adequately compensated for the risks they bear. The Brazilian state energy champion is on a borrowing binge, we pointed out (there was \$139 billion of Petrobras debt outstanding on June 30; it constitutes 1% of the Bloomberg investment-grade dollar corporate bond index). Petrobras's low investment-grade ratings seemed precarious (Moody's downgraded the company to Baa2 from Baa1 on Oct. 21) and its earnings before interest

and taxes covered interest expense by a ratio of just 2.2:1, a skimpier margin of safety than that exhibited by a representative handful of international comps. Even so, not one of the company's dollar-denominated debt issues was priced to yield as much as 6.6%.

Comparatively speaking, those were the good old days. Over the past tumultuous six weeks, the price of a barrel of West Texas Intermediate oil has fallen to \$78 from \$89. The Petrobras third-quarter earnings report, slated for release on Oct. 30, continues to impend as management and the auditors discuss the credibility of certain corporate documents that passed through the hands of a Petrobras executive who has chosen to take a short leave of absence. Sunday brought speculation that the U.S. Department of Justice is investigating Petrobras under America's Foreign Corrupt Practices Act.

After which provocations, not one of the company's dollar bonds is priced

to yield as much as 6.75%. Granted, that maximum is a higher yield than the 3.32% attached to the triple-B-rated Devon Energy Corp. 3 1/4s of 2022, or to a generic 10-year, triple-B-rated corporate, which Bloomberg quotes at 3.88%. But the Petrobras yield is lower than that of the Putin-tainted Rosneft 4.20s of 2022, which dollar-denominated and rated Baa2/BBB-minus, change hands at less than 85 to yield 6.86%. Also on offer, just for instance, is the discounted debt of B2/BB-rated Ultra Petroleum, a Texas-based E&P company, at a price of 93.5 to yield 7.05% to worst.

Surveying the field, we find that our only strong conviction concerns Petrobras. Given the meager reward and ponderable risks, we reiterate the perhaps redundant conclusion, don't touch it.

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