

## Default Risk for US Energy Sector Continues to Rise

### Probability of Default for US Oil & Gas Firms Surges by Almost 30% Over Last Year

Each monthly credit update brings more bad news for the energy sector. Even with positive signs, such as increased air travel and the gradual reopening of the economy, demand remains suppressed. Default risk continues to surge and shows no sign of immediate improvement.

#### Key Findings

- Credit quality for US-based firms deteriorated by 19.3% in last two months and 29.6% over last year
- Probability of default remains far higher for US-based firms than for UK, EU-based firms

#### US Oil & Gas

Credit quality for large US oil & gas firms continues to tank. Once again, this sector is seeing one of the most significant declines of all those tracked by Credit Benchmark, with deterioration picking up significantly in the last two months. The month-over-month drop was 9%, and 19.3% over two months. Year-over-year, credit quality has deteriorated by 29.6%. The average probability of default for the sector is now 55.8 basis points, compared to 51.3 basis points last month, 46.8 basis points two months prior, and 43.1 basis points at the same point last year. This aggregate's Credit Benchmark Consensus (CBC) rating remains in the **bb+** range after losing its investment grade status in April of this year.

#### UK Oil & Gas

A similar pattern has been on display among UK oil & gas firms, with credit deterioration shifting quickly in just the last two months. The month-over-month decline in credit quality was 4%, and 6% across two months. Year-over-year, credit quality deteriorated by 10%. Average probability of default is now 36.8 bps, compared to 35.5 basis points the prior month, 34.8 basis points two months prior, and 33.6 basis points at the same point last year. This aggregate's CBC rating has remained **bbb-** over the last year.

#### EU Oil & Gas

Credit quality deterioration for large oil & gas firms in the EU may also be starting to accelerate. The month-over-month decline was 3%, and the drop from two months prior was 4%. Year-over-year, the drop was only 1.5%. Average probability of default is now 24.5 basis points, compared to 23.9 basis points the prior month, 23.4 basis points two months prior, and 24.1 basis points at the same point last year. This aggregate's CBC rating has remained **bbb** over the last year.

#### About Credit Benchmark Monthly Oil & Gas Aggregate

This monthly index reflects the aggregate credit risk for large US, UK, and EU firms in the oil & gas sector. It provides the average probability of default for oil & gas firms over time to illustrate the impact of industry trends on credit risk. A rising probability of default indicates worsening credit risk; a decreasing probability of default indicates improving credit risk. The Credit Benchmark Consensus (CBC) Rating is a 12-category scale that explicitly links to probability of default estimates sourced from major financial institutions. The letter grades range from **aaa** to **d**.

Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 50,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 75% of the entities covered are otherwise unrated.

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