Credit Benchmark*

US Basic Materials Credit Trends: <u>Turning Point?</u>

September 2022

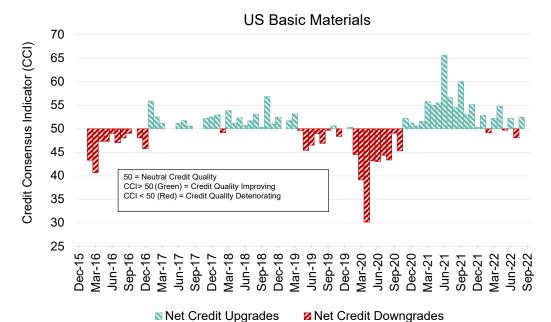
The Basic Materials Industry includes Chemicals, Metals, Mining, Forestry and Paper. <u>Output prices</u> for these sectors have been very volatile in the past 12 months, reflecting recent rapid structural changes in the global economy.

Metals for steel and alloy production – Aluminium, Iron Ore, Lead, Zinc, Manganese, Molybdenum and Tellurium are mainly down. Rare earths used in mobile phones, EVs, batteries, catalytic convertors, and flat screens – such as Rhodium, Titanium, Lithium, Palladium, Neodynium – are higher, with Lithium up over 200% YoY. Mined fuels such as Coal are up nearly 150% over the past 12 months in response to the Ukraine war. Urea ammonia for fertilizer is up more than 100%. Precious metals are modestly down, despite surging global inflation. Some key chemical outputs with wide consumer and industry applications – Polyethylene, Polypropylene and Polyvinyl – are also weaker although PVC prices have spiked more recently. Semiconductor inputs are mixed – Germanium (a largely China-controlled market) is down over 15%, but Gallium is up nearly 50%.

This environment is very positive for some Basic Materials firms but – overall – the sector faces increasing uncertainty as interest rates hit economic growth. US Basic Materials companies recorded a run of 15 months of net improvements from Nov-20 to early-2022. However, this year has been more erratic, with multiple months of net improvement and net deterioration.

Figure 1 shows the Credit Consensus Indicators¹ (CCIs) for US Basic Materials.

Figure 1: Credit Consensus Indicators (CCIs), US Basic Materials: Feb-16 to Aug-22



More CCI industry graphs can be found within Credit Benchmark's monthly CCI Monitors.

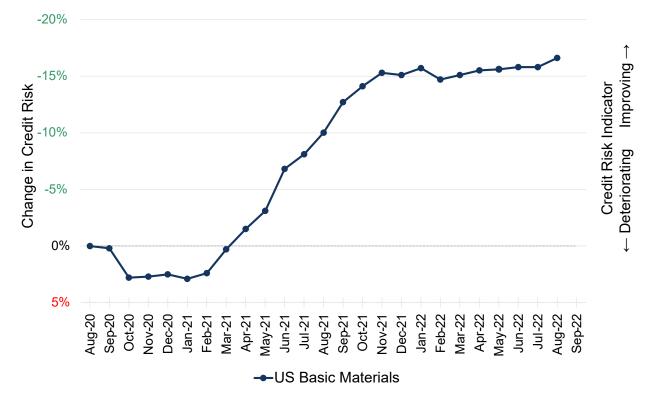
This sample of more than 350 US Basic Materials companies have recorded a few CCIs below 50 recently. However, in the latest month, US Basic Materials CCI is above 50, indicating that upgrades now outnumber downgrades.

1 The CCI is an index of forward-looking credit opinions based on the consensus views of over 20,000 credit analysts at 40+ of the world's leading financial institutions.

Drawn from more than <u>950,000 contributed credit observations</u>, the CCI tracks the total number of upgrades and downgrades made each month by credit analysts to chart the long-term trend in analyst sentiment. A monthly CCI score of 50 indicates neutral credit quality, with an equal number of upgrades and downgrades made over the course of a month. Scores above 50 indicate that credit quality is improving. Scores below 50 indicate that credit quality is deteriorating.

Figure 2 shows the credit trend for US Basic Materials.

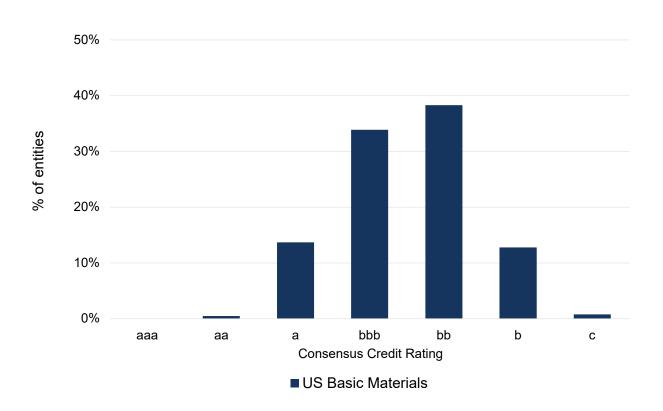




US Basic Materials average credit risk – measured by default probability (axis inverted) – has shown some improvement this month. The CCI indicator may be picking up on early-stage changes in credit opinions that will feed into an even lower average PD in coming months.

Figure 3 shows the current credit distribution for US Basic Materials; less than 50% are rated investment grade.





Credit Benchmark[®]

Credit Consensus Ratings and Analytics

Real-world risk views with unparalleled consensus coverage.

Credit Benchmark provides Credit Consensus Ratings and Analytics based on contributed risk views from 40+ of the world's leading financial institutions, including 15 GSIBs, domiciled in the US, Continental Europe, Switzerland, UK, Japan, Canada, Australia and South Africa.

For regulatory and business reasons, these financial institutions have each created their own regulated internal credit rating agency to assess the creditworthiness of tens of thousands of obligors. Credit Benchmark collects, aggregates and anonymises this information to provide an independent, real-world perspective of risk, delivered twice monthly to our partners.

Credit Benchmark fills an information gap left open by traditional credit risk content providers by offering a timely, comprehensive view of credit risk which proves complementary to issuer-paid rating agencies and third party model vendors. The first of its kind "credit consensus" data reflects the expertise of more than 20,000 credit analysts across the contributing group – a powerful example of the wisdom of crowds.

Credit Consensus Ratings and Analytics are available on over 60,000 corporate, financial, fund and sovereign entities globally, most of which are unrated by credit rating agencies.

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Credit Benchmark data is available via our Web App, Excel add-in, API, flatfile download, and third-party channels including Bloomberg.

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Data Use Cases

- > Counterparty Risk Management
- > Credit Risk Management
- > Systematic Credit Trading
- > Securities Finance
- > Supply Chain Risk
- > Trade Credit Insurance

- > Fund Management
- > Regulation, RWA & Capital
- Onboarding, KYC & Relationship Management
- > Point-in-Time (PIT) Impairments
- > Accounts Payable & Receivable



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60,000+

Entities Covered



2x Twice Monthly

Twice Monthly Frequency



75% Unrated by Major

Unrated by Major Credit Rating Agencies



1,200+ Aggregates



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Months of Data





Contributing Financial Institutions Representing a Pool of 20,000+ Credit Analysts

Real-world risk views with unparalleled consensus coverage

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Credit Consensus Rating: Unique measure of creditworthiness based on the views of 40+ leading global financial institutions

Credit Benchmark

Consensus Analytics:

Insights into the depth, dispersion, movement, and directionality of the Credit Consensus Rating's underlying views

Opinion Indicator: Month over month observation-level net downgrades or upgrades

Credit Benchmark Web App: Entity-Level Data Sample

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Credit Benchmark Web App: Data Screen Sample

Data that works for you:

Credit Benchmark data is available via our Web App, Excel add-in, API, flat-file download, and third-party channels including Bloomberg.

Contact us to learn more and get a free trial of our data.

Contact

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