P R E S S R E L E A S E

London, 15 April 2015

Two sectorial assessments updated due to impact of lower oil prices

The recent drop in the price of oil has had knock-on effects for company credit risk around the world. Among the 14 sectors analysed, Coface has identified one big winner and one big loser, with the corresponding assessments revised upwards or downwards.

Loser: North American energy sector affected by an imbalance in supply and demand

Following the clear improvement in sectorial risk in North America at the end of 2014 (3 sectors reclassified "low risk": Textiles and Clothing, Transport and Chemicals), Coface has responded to the fall in crude oil prices by downgrading the Energy sector to "medium risk".

The output of shale oil and of crude oil continues to rise, whilst prices have halved since the summer of 2014, reflecting excess supply over demand. The oil storage facility in Cushing, the largest in the United States, reached its saturation level of 77% of capacity at the end of March 2015. With the extraction costs for non-conventional oil remaining high (between $50 and $70 a barrel on average), investment is falling, hitting contractors to the oil industry. Layoffs and merger-acquisitions are now taking place within the industry, with the aim of delivering synergies and reducing costs.

"North America has been particularly hard hit by the fall in crude prices which is undermining the viability of many shale oil investment projects. Whilst the increase in risk is not uniform, depending on whether one is located upstream or downstream in the sector, the situation has an impact on all its components, as the price of crude oil determines margins for both producers and operators. So the "majors" are seeing their profitability fall, which in turn affects their relations with subcontractors who then suffer as the "majors" cut back on investment because of the falling returns on investment", explains Guillaume Baqué, Economist at Coface..

Winner: European Chemical industry regains competitiveness

If there is a sector that is truly benefiting from the decline in oil prices, it is the chemical sector in Europe. Lower prices are helping to reduce the competitiveness gap with US industry (assessed as "low risk") and to restore margins. The depreciation of the euro, which favours European chemical exports, is also making a positive contribution. In France the sector's performance improved significantly, with a +1.9% increase in sales in 2014 in the export and domestic markets.

Taking these positive indicators into account, Coface has upgraded the European chemical industry to “medium risk”.

Other sectors are also benefiting from this ongoing trend, but are not subject to revision. This is specifically the case for sea transport, as its production costs fall. Any upgrading in its assessment would seem premature, however, as the continuing economic slowdown in China is dragging demand down. Another sector set to potentially benefit is the European automotive industry as it continues to recover – a recovery symbolised by several successive months of increasing new vehicle registrations.

Each year, Coface UK & Ireland holds a Country Risk Conference to help businesses understand global economic trends and assess trading conditions in established and emerging markets. If you want to be better informed about UK and overseas trading risk, Coface's Country Risk Conference takes place in London on Thursday 4th June. To register your interest please email crc_uk@coface.com

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2014, the Group, supported by its 4,406 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 98 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.
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The company's credit insurance offer integrates credit assessment, collection services and cover for unpaid debts. Multinational businesses can protect their worldwide subsidiaries through Coface's international network.

The company also provides access to domestic and international business information and a collection network at home and overseas. Coface is also a recognised operator in the London political risk market.

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APPENDIX

SECTOR RISK ASSESSMENT			
Sectors	**Emerging Asia**	**North America**	**Western Europe**
Agro-food	Medium risk	Medium risk	Medium risk
Automotives	Low risk	Low risk	High risk
Chemicals	High risk	Low risk	Medium risk
Construction	High risk	Medium risk	High risk
Electronics, IT *	Medium risk	Medium risk	High risk
Energy	Medium risk	Medium risk	Medium risk
Engineering	High risk	Medium risk	Medium risk
Metals	Very high risk	High risk	High risk
Paper-Wood	Medium risk	Medium risk	High risk
Pharmaceuticals	Low risk	Medium risk	High risk
Retail	Low risk	Low risk	Medium risk
Services	Low risk	Medium risk	Medium risk
Textile-clothing	Medium risk	Low risk	Medium risk
Transportation	Medium risk	Low risk	Medium risk

Sources : Datastream, Coface

Low risk · Medium risk · High risk · Very high risk

* Electronics, information technology and telecoms