Commodity Traders' Bonds Plunge as Russia's Invasion Roils Market

Bond yields have risen following Russia's invasion of Ukraine Commodity traders need more funds to handle volatile prices

Jack Farchy 18 March 2022, 18:43 CET

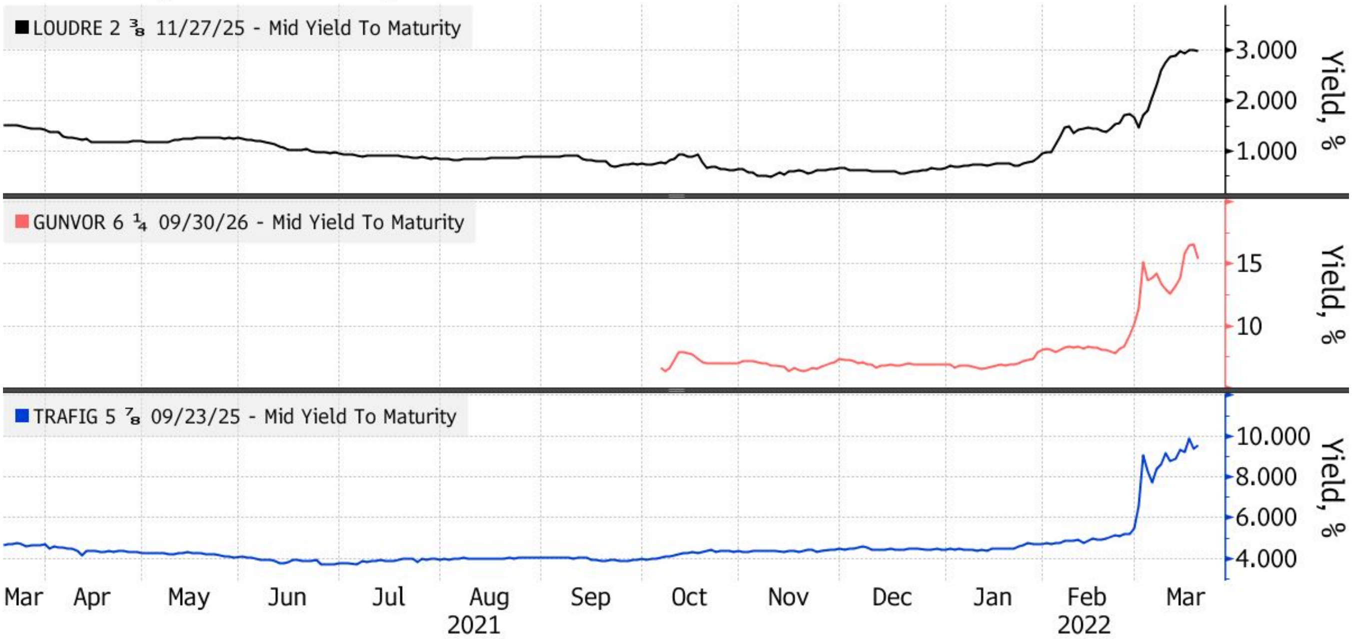
Bonds issued by commodity trading houses sold off sharply in recent weeks as debt markets weighed the effect of soaring prices on company balance sheets and exposure to Russian business following the country's invasion of Ukraine.

In the past week, the yield on Gunvor Group Ltd. bonds due in 2026 rose as high as 16.8%, while Trafigura Group debt due in 2025 gained to almost 10%, according to data on Bloomberg. Credit default swaps on Louis Dreyfus Co. debt were on Friday quoted at more than 260 basis points, having traded below 140 pre-invasion.

Russia is one of the world's top exporters of oil, gas, wheat, nickel and aluminum, and sanctions both official and self-imposed by banks following the invasion have made life much tougher for traders operating assets or supply agreements there.

Rising Yields

Commodity trader bond yields have risen since Russia's invasion of Ukraine



Source: Euronext, Gettex Bloomberg

The moves on commodity trader debt come amid a liquidity crunch; with commodity prices rising sharply and at their most volatile in years, traders have been under pressure from banks and brokers to post margin calls -- requests to lay down more cash to back their positions. A Brussels-based lobbying group has even begun campaigning for emergency liquidity provisions for the industry.

"The natural tendency is to lend short term to commodity traders, because they run short-term businesses," said Jean-Francois Lambert, a former commodity banker turned industry consultant with Lambert Commodities. "It is relatively recent that traders were able to issue bonds and was a sign that their financial situation had improved significantly, a reaction to their improved clout."

"Now that clout is being challenged because of the uncertainty caused by the Russia situation."

To be sure, liquidity in the markets for the traders' bonds is thin in comparison with blue-chip corporates -- some can go days without trading.

"There is very, very limited float, especially at the moment," said Lambert.

Gunvor, Trafigura and Louis Dreyfus all declined to comment.

Crucial Cog

In the past couple of decades, commodity traders have become a crucial cog in global trade, providing liquidity and taking on risk to help grease the wheels of global demand for food, energy and consumer goods. That growth historically has been funded by loans from banks rather than the corporate debt markets, where investors tend to reward companies with longer-term business outlooks and large asset bases.

The past two weeks has seen several traders look to broaden their financial clout in order to beat back margin calls and trade what are potentially hugely profitable markets.

So far trading houses are yet to take on capital to broaden equity bases. While some of the biggest, such as Glencore Plc and Bunge Ltd. took their equity public, most remain privately owned by executives.