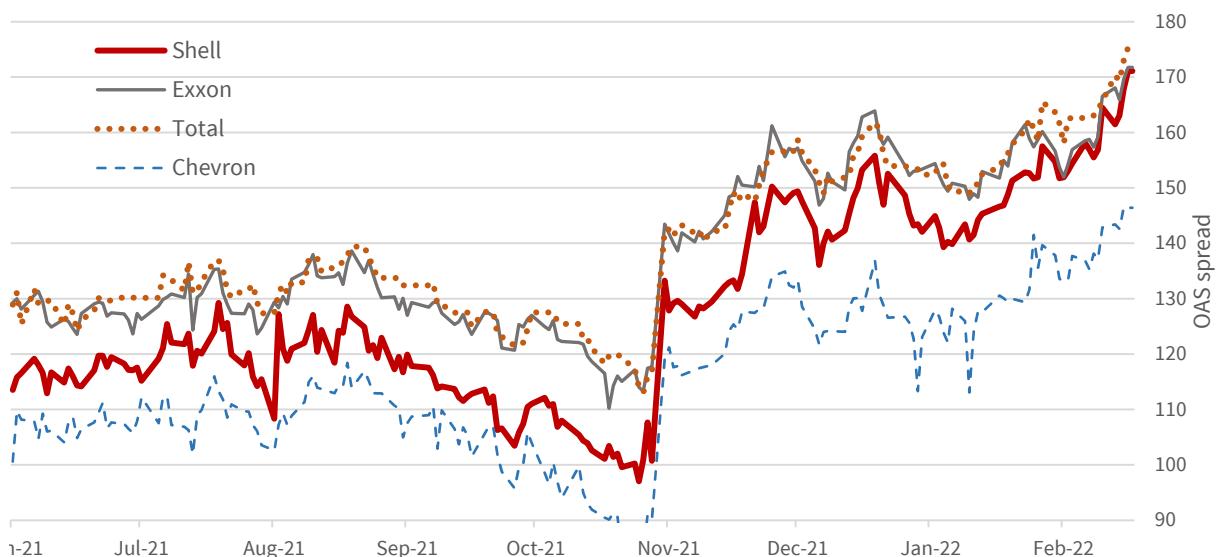


# Shell long-end USD bonds: Smoked not smoking

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Figure 1. Long end (2050s area) USD oil bonds. RDSALN 3.25% 04/2050; XOM 3.452 04/2051; TTEFP 3.46 07/2049; CVX 2.343 08/2050. Source: AFII, Bloomberg.



Our June -21 piece: “[Big Oil's terrible day: Bond market \(lack of\) reactions](#)” expressed surprise by the lack of reaction of the long-end USD curve of Shell bonds after the company had suffered a defeat in a Dutch court with respect to carbon emissions commitments.<sup>1</sup> The share price had fallen but long-end spreads remained unchanged after that. We especially highlighted the RDSALN 3.75% 2025s (ISIN US822582CH36, USD2bn, issued in April 2020).

Since then and as illustrated in Figure 1, the Shell USD long-end has really underperformed, both on a relative and absolute basis and in contrast to a strong stock performance (+54% since 1 Jue 2021). The bonds have moved 50bp wider on a duration adjusted measure: combining this with a (spread) duration of around 18yrs, generating excess returns in the region of -8%.

As noted in the graph by comparing with similar long-end USD oil bonds, Shell appears to have compressed vis-à-vis higher spread sector peers (XOM, TTEFP) and decompressed from lower beta names (CVX). We do believe that this pricing is at a level where investors could start looking at relative valuations, especially in the context of relative transition progression in the sector.

<sup>1</sup> Also see “[Shell-shocked: a whale trade in corporate bonds](#)”, AFII, 1 Dec 2021. Note that South African courts stopped the seismic operations on behalf of Shell: “[Seismic surveys by Shell in whale breeding grounds halted \[...\]](#)”, The Independent, 29 Dec 2021.

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