

Signs point to tight business lending in 2010

October is when many companies are preparing budgets and business plans for the following year, so it seems a good time to consider the credit environment for 2010.

While there is no crystal ball, we do have 100 years of historical data from the Federal Reserve to give us clues to business lending levels and business failures coming out of a recession. The good news is that there are some clear patterns that have occurred after every recession.

To apply historical data to the future, we need to know when this recession ended, and industrial production has proved to be a consistent marker. More accurately, a reduction in year-over-year declines in industrial production defines the end of a recession. So, unless there is a "double dip" in the coming months, the recession likely ended in July.

Before we consider future business lending levels, we need to understand the current business lending



BUSINESS VIEWPOINT

Matthew Bristow

landscape. In the last 30 years, even at the fastest pace of growth, it has typically taken 10 or more years to double commercial and industrial lending levels. However, it took less than half that time for C&I lending to double from May 2004 to a peak in November 2008, according to the Federal Reserve Bank of St. Louis.

C&I lending has been declining since December, and history suggests it will continue to decline — year-over-year — for up to three years after the end of this recession.

And not only is business lending declining, but the pace of the decline is increasing. Typically, the

pace of declines has increased for up to 18 months after the end of a recession, so it is likely that this time we are going to break the 1949 record of a 9.3 percent year-over-year decline.

If C&I lending follows the historical pattern, lending levels could drop from \$1.64 trillion in October 2008 to less than \$1.3 trillion at some time in 2011. Assuming no change in supply and demand for loans, that would be a shortfall of approximately \$350 billion.

The demand for new and replacement debt will likely increase in the next two years. Many stronger companies that previously carried little or no debt will start to take on new debt. Banks are competing for this business.

This will be combined with medium- and higher-risk business loans that were made to what appeared to be strong companies at competitive rates a year or so ago, when less stringent credit was available. At a minimum, these weaker companies are going to

need to renew or replace their existing debt and there are not as many banks competing for this business.

The supply of new and replacement debt will likely fall over the next two years. As a result, there will be a widening gap between supply and demand, and it will be the weaker companies that will suffer when they are unexpectedly unable to replace or renew their debt.

This could trigger three things: a) Lenders will increase interest rates and fees to compensate for the additional risk of these medium to high risk loans, thus putting further pressure on companies' already weak balance sheets; b) some businesses will have to switch to more costly forms of debt; or c) a shortfall in supply will lead to an increase in defaults on C&I loans, which leads us to review historical business failures after a recession.

According to the American Bankruptcy Institute, U.S. business bankruptcy filings have now

risen every quarter for 13 straight quarters since the bankruptcy rules changed in 2005. To compound this trend, business bankruptcy filings have kept increasing for between two years to five years after the end of each previous recession.

Our intention is not to spread doom and gloom, but to raise awareness that the economic battle is not yet over. As a CEO or CFO, you may want to consider professional advice, assistance or even a confidential sounding board to renew, raise or replace debt next year.

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The views expressed here are those of the author and not necessarily the Tulsa World. To inquire about writing a Business Viewpoint column, e-mail a short outline of the article to Business Editor John Stancavage at john.stancavage@tulsa.com. The column should focus on a business trend; the outlook for the city, state or an industry; or a topic of interest in an area of the writer's expertise. Articles should not promote a business or be overly political in nature.

ConocoPhillips sell list reported by UBS unit

BY EDWARD KLUMP
Bloomberg News

ConocoPhillips, which announced plans last week for \$10 billion in divestitures, might sell such assets as its stake in Canadian oil-sands producer Syncrude Canada Ltd., UBS Securities LLC says.

The Houston-based oil producer has identified about \$20 billion worth of assets from which it can reach its target of \$10 billion in sales, UBS said in a report to clients dated Tuesday. ConocoPhillips may look to sell properties in which it's not the operating partner, UBS said.

ConocoPhillips said Oct. 7 that it plans to use proceeds from asset sales over the next two years to reduce borrowings, cutting its debt-to-capital ratio to a range of 20 percent to 25 percent. The ratio was 34 percent as of the end of June.

UBS said the divestitures may be expanded.

"Management stated it would sell more than the \$10 billion target if it received offers that exceeded their internal valuations," UBS said.

ConocoPhillips' spokesman Charlie Rowton declined to comment on the UBS report or to discuss which assets the company might sell.

The company's stake in Syncrude is about 9 percent. Other partners in the venture include Canadian Oil Sands



A dump truck is loaded with oil sands at Syncrude Canada's Aurora Mine near Fort McMurray, Alberta. UBS Securities reports that ConocoPhillips might sell its stake in Syncrude Canada, among other assets. NORM BETTS/Bloomberg News

Trust, Imperial Oil Ltd., Sunco Energy Inc., Murphy Oil Corp., Nexen Inc. and Japan's Mocal Energy Ltd.

Cheryl Robb, a spokeswoman for Syncrude, declined to comment on the matters.

ConocoPhillips was "non-committal" on a possible sale of its 20 percent stake in Russia's OAO Lukoil, according to UBS. It makes sense for the company to shed some of its interest in Lukoil to boost cash returns while keeping a foothold in Russia, UBS said.

North American natural

gas assets also might be sold in light of ConocoPhillips' "more cautious" outlook for U.S. fuel prices, the report stated. The company purchased a gas producer, Burlington Resources Inc., in 2006.

The UBS report also listed assets in Algeria, Nigeria and Libya as possible holdings that could be sold.

UBS said ConocoPhillips was "pragmatic" in seeing that it might be tough to sell refining assets soon. ConocoPhillips won't list assets on

foreign exchanges as part of its divestiture plan, UBS said.

Shares of ConocoPhillips fell 13 cents Wednesday to \$50.84 on the New York Stock Exchange. The stock had fallen 1.6 percent this year through Tuesday.

William Featherston, a UBS analyst in New York, rates the shares at "neutral." ConocoPhillips has eight buy ratings, nine holds and one sell recommendation from analysts.

ConocoPhillips is the third-biggest U.S. oil company.

Chesapeake looks at sale of shale assets

BY JIM POLSON
Bloomberg News

Chesapeake Energy Corp. might sell "fringe" shale acreage as it strives to achieve investment-grade credit ratings, CEO Aubrey McClendon said Wednesday.

Asset sales totaling \$2 billion a year "will be the norm," McClendon said at a meeting with analysts and investors in New York.

Chesapeake remains in talks to sell a stake in its production in the Barnett Shale region of Texas, as announced earlier this year, he said.

Chesapeake's three-year cash plan calls for as much as \$5.65 billion of asset sales and \$2.15 billion of acquisitions during 2009-11. The company will focus on drilling shale acreage and will sell assets to strengthen its balance sheet and achieve investment-grade credit, McClendon said.

"Fringe shale assets" and wells tapping conventional formations may be sold, he said.

"There was a time you all were told that any of the 17 counties in the Barnett Shale play would be just as good as any other county," McClendon said. "We found out there are about two or two and a half counties where you really want to be."

Chesapeake also announced Wednesday that earnings this year will be 33 percent below 2008 results.

Earnings excluding some one-time items will be \$1.3 billion this year, Chesapeake



SELLING
Aubrey McClendon: Improved credit ratings are the goal.

said. Profit on that basis last year was \$1.95 billion, and profit on that basis next year will be \$1.8 billion.

Chesapeake should earn \$1.49 billion this year excluding some items, according to the average of 16 analysts surveyed by Bloomberg. Chief Financial Officer Marc Rowland said at Wednesday's meeting that sales may include assets in the Permian Basin of Texas and in Oklahoma. Fields in Virginia and New Mexico may fetch "several hundred million dollars" in each state, McClendon added.

"We're exceptionally good at identifying new plays, going out and buying the acreage and turning around and selling a portion of that acreage," McClendon said in response to a question at the meeting. "I like the idea of buying land wholesale and selling it retail."

Chesapeake last year sold a 32.5 percent stake in its Marcellus Shale gas acreage for \$1.25 billion to StatoilHydro ASA of Norway. BP paid Chesapeake \$1.9 billion for 25 percent of Chesapeake's Fayetteville Shale holdings after buying its Woodford Shale assets in Oklahoma for \$1.75 billion.

Newfield, Hess to explore Marcellus Shale jointly

■ Houston-based Newfield entered a shale in Oklahoma in 2003.

BY JESSICA RESNICK-AULT AND DAVID WETHE
Bloomberg News

Newfield Exploration Co., the Houston oil and natural-gas producer, and Hess Corp., a producer and refiner in New York, have agreed to jointly explore the Marcellus Shale, the largest known such formation in the world.

Newfield will operate the venture, which will include up to 140,000 gross acres in Susquehanna and Wayne counties in Pennsylvania, the company said in a statement Wednesday. Each company will have a 50 percent interest in the venture.

Both companies have explored in shale formations before. Hess has been active in the Bakken Shale in North Dakota, and Newfield entered Oklahoma's Woodford Shale in 2003.

The Marcellus Shale is likely to become one of the country's largest natural gas

resource plays, Newfield CEO Lee Boothby said in the statement.

"Today, with substantially all of our acreage held-by-production in the Woodford Shale, it's a great time for us to enter an important new focus area," Boothby said.

The Marcellus Shale formation is attracting attention as a "significant" new source of gas production, according to a September report from New York state environmental officials.

The formation, which extends from Ohio through West Virginia and into Penn-

sylvania and New York, is the largest known shale deposit in the world, according to researchers at Pennsylvania State University.

Irene Haas, an analyst at Canaccord Adams Inc. in Houston, said Newfield would likely increase its stake in the shale-gas basin.

"I think it's a pretty serious move because I don't think Lee would have committed his company's time and effort into a new area unless they believe that there's a lot more to grow into in the future," said Haas, who rates Newfield shares a "buy" and owns

none. "I wouldn't look at just the 140,000 gross acres and say, 'This is it.'"

Newfield and Hess are entering the venture as partners to defray high startup costs, Haas said.

"I think the Marcellus tends to favor strong operators," she said.

Hess says its operating record in the Bakken Shale positions it to perform well in this venture.

"Hess has an established technical capability in horizontal, multistage fractured wells, and we have a reputation for sound environmen-

tal operating practices," said Greg Hill, the company's chief of exploration and production, in the statement.

Hess's Bakken Shale position largely produces oil. The Marcellus play will be focused on natural gas.

About 69 percent of Hess's 2008 output, which totaled 381,000 barrels of oil equivalent, was crude, said Jon Pepper, a Hess spokesman.

Shares in Newfield increased \$1.09, or 2.3 percent, to \$47.72 on Wednesday on the New York Stock Exchange. Hess gained 91 cents to \$59.29.

FOREIGN EXCHANGE							ENERGY FUTURES							AGRICULTURE FUTURES																		
MAJORS	CLOSE	CHG.	%CHG.	6MO. AGO	1YR. AGO		EXP.	OPEN	HIGH	LOW	SETTLE	CHG	EXP.	OPEN	HIGH	LOW	SETTLE	CHG	EXP.	OPEN	HIGH	LOW	SETTLE	CHG								
USD per British Pound	1.5971	+0.070	+4.4%	1.4940	1.7437		HEATING OIL (NYMEX)	42,000 gal, cents per gal	Nov 09	192.70	195.10	192.17	194.27	+1.93	CORN (CBOT)	5,000 bu minimum- cents per bushel	Oct 09	380.50	388.75	377.50	383	+1.25	SOYBEAN OIL (CBOT)	60,000 lbs- cents per lb.	Oct 09	36.14	36.14	35.93	35.95	+0.09		
Canadian Dollar	1.0278	-0.059	-5.7%	1.2128	1.1616		Nov 09	197.73	198.20	195.20	197.39	+2.29	Mar 10	391	400	389.25	395	+1.75	Oct 09	35.99	36.45	35.91	36.18	+1.12	Dec 09	36.46	36.90	36.36	36.63	+1.12		
USD per Euro	1.4908	+0.079	+5.3%	1.3293	1.3650		Jan 10	201.00	201.00	198.80	200.75	+2.46	May 10	399	407.75	399	403	+1.75	Jan 10	36.46	36.90	36.36	36.63	+1.12	Feb 10	36.46	36.90	36.36	36.63	+1.12		
Japanese Yen	89.48	-28	-31%	98.85	101.88		Feb 10	203.90	203.90	201.60	203.29	+2.42	Jul 10	407	414	404.75	410.25	+2	Mar 10	36.81	37.26	36.75	36.99	+1.11	Apr 10	37.55	38.37	37.50	38.12	+0.43		
Mexican Peso	13.0660	-0.960	-7.3%	13.1634	12.4095		Est. sales 60,063. Tue's sales 106,194																									
EUROPE/AFRICA/MIDDLE EAST							LIGHT SWEET CRUDE (NYMEX)							COTTON 2 (NYBT)																		
Israeli Shekel	3.7080	-0.150	-4.0%	4.1558	3.5778		1,000 bbl- dollars per bbl.	Nov 09	74.40	75.53	74.40	75.18	+1.03	Dec 09	65.88	67.61	65.73	67.08	+1.20	Nov 09	991	1008.75	988.25	994	+1	Oct 09	93.05	94.00	93.00	93.72	+6.7	
Norwegian Krone	5.5541	-0.674	-1.21%	6.6092	6.2617		Dec 09	75.82	75.95	74.88	75.60	+8.9	Mar 10	68.32	69.78	68.32	69.25	+9.0	Jan 10	994.25	1010.75	991.75	998	+2.25	Nov 09	93.15	94.55	93.10	94.15	+1.03		
South African Rand	7.2520	-0.914	-1.26%	9.0925	9.1491		Jan 10	76.25	76.45	75.40	76.12	+8.3	May 10	69.29	70.50	69.15	70.00	+7.3	Mar 10	994	1009	993	999	+3.75	Jan 10	93.85	95.25	93.82	94.97	+9.5		
Swedish Krona	6.9252	-0.629	-9.1%	8.1500	7.1685		Feb 10	76.88	76.88	75.97	76.68	+7.9	Jul 10	70.00	71.01	70.00	70.65	+5.7	Mar 10	988.25	1001	987	993.50	+4	Mar 10	95.65	96.77	95.65	96.22	+5.7		
Swiss Franc	1.0162	-0.068	-6.7%	1.1356	1.1338		Est. sales 414,040. Tue's sales 755,110																									
ASIA/PACIFIC							NATURAL GAS (NYMEX)							OATS (CBOT)																		
Australian Dollar	1.0940	-0.105	-9.6%	1.3760	1.4361		10,000 mm btu's, \$ per mm btu	Nov 09	4.609	4.664	4.399	4.436	-15.2	Dec 09	255	263.50	250.75	253.50	-5	Dec 09	506.25	529	505	513	+1.75	Oct 09	50.70	51.15	50.55	51.10	+6.5	
Chinese Yuan	6.8274	-0.014	-0.2%	6.8333	6.8353		Nov 09	5.390	5.550	5.304	5.357	-118	Mar 10	268	276.50	264.50	266.50	-5	Mar 10	524.75	547	523.75	532	+1.75	Dec 09	54.10	54.72	53.62	54.25	+5.8		
Hong Kong Dollar	7.7500	-0.000	-0.0%	7.7502	7.7580		Dec 09	5.720	5.887	5.640	5.684	-134	May 10	274	279	272.50	274	-5	May 10	537	560	537	544.75	+1.75	Jan 10	60.00	60.67	59.40	60.25	+1.05		
Indian Rupee	46.070	-254	-55%	49.699	48.077		Jan 10	5.766	5.926	5.699	5.744	-133	Jul 10	287	287	282	282	-5	Jul 10	549	571	548.50	555.75	+2.5	Apr 10	65.12	65.77	64.75	65.50	+7.3		
Singapore Dollar	1.3904	-0.081	-5.8%	1.4970	1.4641		Est. sales 192,297. Tue's sales 353,965																									
South Korean Won	1172.00	+5.80	+4.9%	1319.80	1205.80		Tue's open int. 744,152, +30,901																									
Taiwan Dollar	32.28	-0.6	-1.9%	33.64	32.47		NY HARBOR GAS BLEND (NYMEX)	42,000 gallons- dollars per gallon	Nov 09	1.8722	1.8743	1.8390	1.8575	+0.027	Oct 09	337.20	338.10	327.30	336.00	+9.70	Dec 09	528	541.25	517.50	524	-1	Nov 09	83.00	83.50	82.45	83.30	+5.5
							Nov 09	1.8875	1.8905	1.8555	1.8766	+0.020	Dec 09	303.90	311.00	303.20	305.70	-6.0	Mar 10	543.50	557	533	539.25	-1.75	Mar 10	82.00	82.00	80.60	81.10	+6.0		
							Jan 10	1.8975	1.9139	1.8850	1.9055	+0.027	Jan 10	300.80	306.80	300.50	302.70	-1.0	May 10	567	579	556.75	562.50	-1.75	May 10	85.00	85.10	85.00	85.10	+6.0		
							Feb 10	1.9240	1.9343	1.9127	1.9322	+0.024	Mar 10	298.30	303.10	297.80	300.00	+5.0	Jul 10													