

Markit Update: Markit iTraxx Europe index rolls

The final membership of the new Markit iTraxx indices, scheduled to roll on 20 September 2011, was announced this week. The following report outlines the changes and provides some colour on the constituents.

Markit iTraxx Europe Series 16

Additions

Ticker	Name	Sub Index	5Y CDS Spread	6M Change	Markit Liquidity Score
ATSPA	ATLANTIA S.P.A.	Autos & Industrials	277	166	3
VLOF	VALEO	Autos & Industrials	244	105	2
SABLN	SABMILLER PLC	Consumers	131	48	3
RDSPLC	ROYAL DUTCH SHELL PLC	Energy	105	48	2
STOL	Statoil ASA	Energy	99	41	2
BSY	BRITISH SKY BROADCASTING GROUP PLC	TMT	114	53	2
LMETEL	Telefonaktiebolaget L M Ericsson	TMT	132	56	2
Average			157		

*5Y CDS Spread is for September 13 2011

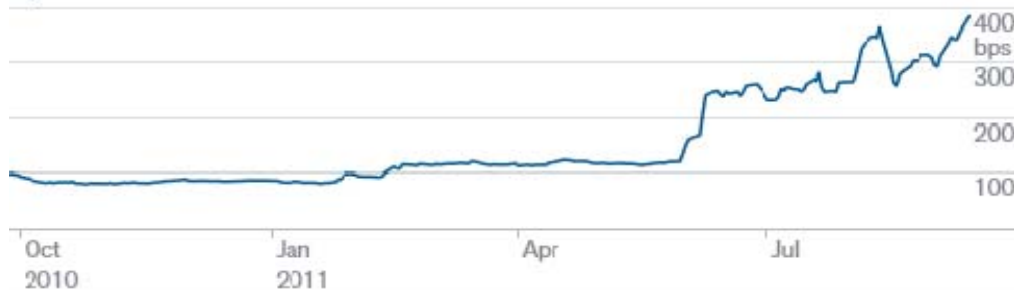
The Markit iTraxx Europe index comprises 125 investment grade European entities. The constituents of the index are determined by a number of liquidity and ratings criteria. More changes have been made this roll to improved the efficiency of the index. Constituents eligible for inclusion in the Markit iTraxx Europe Main will now be selected directly from a liquidity list based on trading activity data from the DTCC Trade Information Warehouse. Previously, constituents that were no longer eligible were removed from the previous series of the index and replaced by entities from the liquidity list. The sector specific membership criteria, which require entities from a number of specific sectors to be included in the index, remain in place. from the liquidity list. The sector specific membership criteria, which require entities from a number of specific sectors to be included in the index, remain in place.

The test for determining liquidity in the subordinated CDS for the financials has been removed from the index rules. The combined Senior and Subordinated CDS volumes for the financials available from the DTCC Trade Information Warehouse will be used for index membership determination.

A full explanation of the rules can be found on the iTraxx documentation section on www.markit.com

Nokia's torrid year

5-year CDS



© Markit Group Limited.

Markit and the Markit logo are registered trademarks.



Most of the credits added to the Markit iTraxx Europe are household names, and several have been constituents in previous series of the index. One credit that might not be familiar to many is Italian firm Atlantia SPA. But many will know it better as Autostrade, from which it changed its name in 2007. The company is one of the largest toll motorway operators in Europe and has a market capitalisation in excess of EUR6 billion, so it is no minnow.

Seven names were excluded on this roll, three on liquidity grounds and the remainder due to rating downgrades below the investment grade threshold. Swedish Match, Deutsche Post and Rolls Royce all failed to meet the inclusion criteria because trading activity was too low over the last six months. The last credit may raise eyebrows among some market participants as it is a well-known credit in the market but the DTCC data was quite clear. Three of the names excluded were based in the eurozone's periphery: Edison S.P.A., EDP and Portugal Telecom. All of these companies suffered from their government's credit standing declining precipitously this year. After the removal of Banco Espirito Santo in the last roll, Portugal is no longer represented in the Markit iTraxx Europe.

Perhaps the most surprising removal is Nokia. The Finnish company used to be a darling of the European stock markets and was debt free until recently. But its fortunes have declined rapidly as it failed to compete in the burgeoning smartphone sector. Profit warning followed profit warning and it inevitably saw several rating downgrades. The chart shows just how much its credit standing has deteriorated in recent months.

Removals

Ticker	Name	Sub Index	5Y CDS Spread	6M Change	Markit Liquidity Score
DPW	Deutsche Post AG	Autos & Industrials	115	43	3
ROLLS	ROLLS-ROYCE plc	Autos & Industrials	96	25	2
SWEMAT	Swedish Match AB	Consumers	90	24	2
FERRUZ	EDISON S.P.A.	Energy	252	119	2
EDP	EDP - Energias de Portugal, S.A.	Energy	719	468	2
NOKIA	Nokia Oyj	TMT	385	268	1
PLTMPL-IntFin	Portugal Telecom International Finance B.V.	TMT	852	615	2
Average			358		

Markit iTraxx Europe HiVol Series 16

Additions

Ticker	Name	5Y CDS Spread	6M Change	Markit Liquidity Score
ADO	Adecco S.A.	201	111	3
AAUK	Anglo American plc	222	124	1
ATSPA	ATLANTIA S.P.A.	277	166	3
ENI	ENI S.P.A.	193	103	2
LNK	LANXESS Aktiengesellschaft	262	153	2
METFNL	METRO AG	193	105	1
VLOF	VALEO	244	105	2
VEOLIA	VEOLIA ENVIRONNEMENT	205	125	2
VINCI	VINCI	174	95	2
Average		219		

The Markit iTraxx Europe HiVol index portfolio is selected by taking the 30 entities from the iTraxx Europe non-Financials index with the widest 5-year spreads, as determined by Markit.

Five names have been removed from the HiVol because their spreads are too low: BAE Systems, Kingfisher, Ahold, Tate & Lyle and Vivendi. It speaks volumes for the difficult times that we're in that credits trading at nearly 200bp are considered "too low" for the HiVol index (the spreads in the tables were snapped at a different date than the determination date). The remaining four names have all been excluded from the Markit iTraxx Europe and thus are no longer eligible from inclusion in the HiVol.

Removals

Ticker	Name	5Y CDS Spread	6M Change	Markit Liquidity Score
BAPLC	BAE SYSTEMS PLC	182	63	2
FERRUZ	EDISON S.P.A.	252	119	2
EDP	EDP - Energias de Portugal, S.A.	719	468	2
KINGFI	KINGFISHER PLC	179	70	1
AHOLD	Koninklijke Ahold N.V.	181	91	1
NOKIA	Nokia Oyj	385	268	1
PLTMPL-IntFin	Portugal Telecom International Finance B.V.	852	615	2
TATELN	TATE & LYLE PUBLIC LIMITED COMPANY	97	6	3
VIVNDI	VIVENDI	160	60	1
Average		334		

Markit iTraxx Europe Crossover Series 16

Additions

Ticker	Name	5Y CDS Spread	6M Change	Markit Liquidity Score
ARDAPAC	ARDAGH PACKAGING FINANCE PUBLIC LIMITED COMPANY			
CLAR	Clariant AG	436	436	1
CONVHEA	ConvaTec Healthcare E S.A.			
EDP	EDP - Energias de Portugal, S.A.	719	719	2
FIATIND	FIAT INDUSTRIAL S.P.A.	861	861	2
ISSNAS	ISS A/S	734	734	2
KDVSGM	Kabel Deutschland Vertrieb und Service GmbH	503	503	1
MUSKGMB	MUSKETEER GmbH			
NOKIA	Nokia Oyj	385	385	1
PLTMPL-IntFin	Portugal Telecom International Finance B.V.	852	852	2
SAS-ScanAirSys	Scandinavian Airlines System Denmark-Norway-Sweden	1062	1062	1
SUNRICO	Sunrise Communications Holdings S.A.			
Average		694		

In a similar manner to the Markit iTraxx Europe index, the Markit iTraxx Crossover index is constructed according to various liquidity and ratings criteria. A liquidity list is compiled by Markit based on the sum of weekly trading activity as measured in the DTCC TIW (Section IV) over the last six months preceding the last Friday of the month prior to the Roll Date. The list is ranked according to trading volumes, i.e. the entity with the highest trading volume is ranked #1.

But there has been an important change to the rules. Entities that do not have actively traded CDS are now eligible for inclusion in the index. In addition to the usual eligibility criteria, these entities must also have issued a minimum of EUR 500 million of new debt over the past 12 months and have at least one bond included in the Markit iBoxx EUR Liquid HY and/or Markit iBoxx USD Liquid HY indices

Full details can be found on www.markit.com

There are 50 names in the Markit iTraxx Crossover Series 16 index compared to 40 in Series 15. Just two names were removed – Rhodia and Tomkins – both because their spreads were too tight. Of the 12 names added, three were demoted from the Markit iTraxx Europe: EDP, Portugal Telecom and Nokia (Edison's spreads were too tight). Four of the names have been added from the supplementary list, i.e. names that aren't actively traded in the CDS market (hence the blank spaces in the table). It will be interesting to see if liquidity in these credits picks up due to their inclusion in the Crossover.

Removals

Ticker	Name	5Y CDS Spread	6M Change	Markit Liquidity Score
RHA	RHODIA	112	-162	3
TMKLT	TOMKINS LIMITED	189	-103	3
Average		151		

Gavan Nolan

Credit Analyst

Markit

Tel: +44 20 7260 2232

Email: gavan.nolan@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.