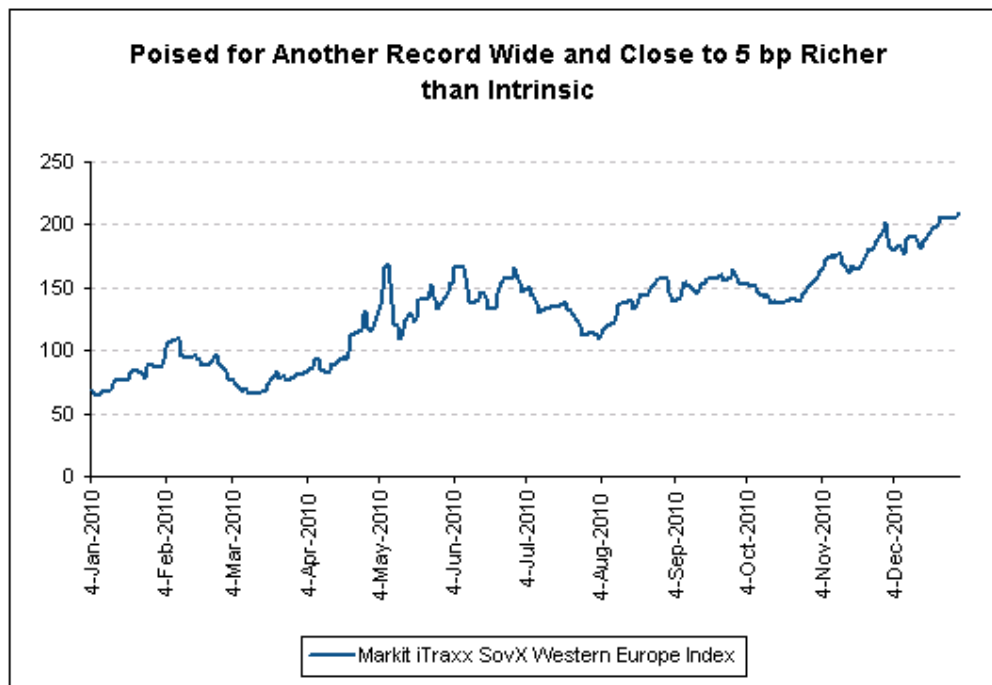


Markit Credit Wrap: The Final Word of the Year



Ok maybe this is not the last word of the year. Inevitably, anytime someone tries to have the last word some wisecrack will come along and say just about anything so that he can have the last word. So how about a word that will at least cause some introspection, provide a review of the past year's events and prompt thoughts for next year? Austerity. Before anyone is tempted to provide a different word (in order to have the last word, of course), it should be noted that "austerity" was 2010's Word of the Year according to the people at Merriam-Webster. They selected the word based on all the hits received on their online dictionary as people apparently wanted to know what the word meant when European politicians and financial market participants started using it heavily. While one can talk about CDS levels for some of the eurozone sovereigns being at or near record wides or how the Markit iTraxx SovX Western Europe index, a solid benchmark for the credit risk of Western European governments, indicates that investors feel that there is substantial risk in the peripherals, it does not quite have the same impact as saying that austerity is the word of the year.

Greece which was the primary focus of investors for the better part of this year was in the news again the past couple of weeks. While a Greek bailout was the driver this past spring, speculation about potential debt restructuring plans is the recent focus with talks of the country restructuring the portion of its debt that matures after 2013. Today, another Greek newspaper reported more details about possible restructuring details. The latest report is that an adviser to Prime Minister George Papandreou has been touring the capitals of Europe trying to solicit support for repayment extensions of the nation's debt held by private sector lenders. Greece has already received this type of concession from the IMF to 2021 on the bailout funds. The latest details focus on extending the maturities of the debt due in 2013-2015 to terms of 10-30 years.

Greece currently only accesses the debt markets for short-term paper, effectively being priced out of anything longer on the yield curve. As Greece has stated publicly their desire to resume long-term bond issuance in late 2011 or 2012, it is critical that any restructuring effort does not include a principal reduction or haircut lest the lockout from long-term issuance endures for much longer. Greece CDS was about 10 bp wider today in reaction to the latest speculation with

most of the other peripherals flat in what was again another low volume session. While investors have been focused on the pipeline of new bond issuance for 2011 in recent sessions, there was no new information announced today.

While some believe that austerity measures will be too restrictive for recovering economies, lenders are demanding it and at least for now, governments across Europe are summoning the political will to enact aggressive budget cuts in recognition that they have little choice. Imagine politicians not doing the politically expedient thing but rather acting like statesmen and doing extremely unpopular things for the good of their nation, damn the consequences at the polls. Yes, it has been that crazy of a year. However, ultimate resolution to the eurozone sovereign crisis will not come quickly. These events will continue to play out well into 2011 if not 2012. In that sense, austerity is not the last word at all.

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