

Markit Update: Markit iTraxx Europe index rolls

The final membership of the new Markit iTraxx indices, scheduled to roll on 21 March 2011, was announced this week. The following report outlines the changes and provides some colour on the constituents.

Markit iTraxx Europe Series 15

Additions

Ticker	Name	Sub Index	5Y CDS spread	6M change	Markit Liquidity Score**
VLVY	Aktiebolaget Volvo	Autos & Industrials	104	-60	1
RNTKIL	RENTOKIL INITIAL PLC	Autos & Industrials	155	19	3
ELTLX	Aktiebolaget Electrolux	Consumers	65	-2	1
TATELN	TATE & LYLE PUBLIC LIMITED COMPANY	Consumers	90	-39	1
ENI	ENI S.P.A.	Energy	101	17	1
BPSC	BANCO POPOLARE SOCIETA COOPERATIVA	Financials	272	62	1
LLOYDS-Bank	LLOYDS TSB BANK plc	Financials	188	16	1
NOKIA	Nokia Oyj	TMT	116	18	1
Average			136		

*5Y CDS Spread is for March 9 2011

**Markit Liquidity Score is averaged over the last six months

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. A significant change has been introduced this year with the formal use of trade activity data from the DTCC Trade Information Warehouse. Markit forms a Liquidity List 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. Rating downgrades (to anything with a BBB-/Baa3/BBB- rating on negative outlook or below), corporate actions or defaults can also result in exclusion. A full explanation of the rules can be found on the iTraxx documentation section on www.markit.com

Sector constraints: 30 autos & industrials, 30 consumers, 20 energy, 20 TMT and 25 financials.

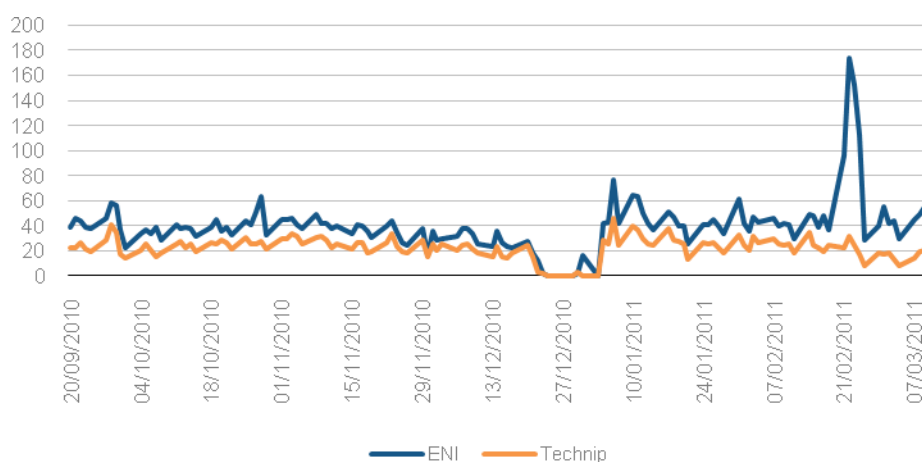


Fig.1 Number of CDS quotes received daily

Most of the changes on this roll are due to liquidity, with only one name removed on ratings grounds (OTE). Lloyds TSB Bank is included at the expense of Bank of Scotland. Both names are part of the Lloyds Banking Group but the latter is less liquid than the former. ENI replaces Technip in the Energy sub-sector. The Italian oil group has been under intense scrutiny during the first-quarter of this year due to its exposure in North Africa. ENI is the biggest foreign oil producer in Libya, which is in the midst of a civil war. The conflict has severely disrupted oil exports from the country, and this has obviously had a detrimental effect on ENI. The number of quotes received daily by Markit in the Italian name shot up in February when the unrest escalated, according to Markit Liquidity Metrics (see chart above). It has since come back down, though the level remains high compared to last year. Technip, on the other hand, has seen the number of quotes fall over the course of 2011 and it has a Markit Liquidity Score of 2, compared to ENI's top score of 1.

There are no longer any Portuguese banks in the index due to the removal of Banco Espírito Santo. The bank failed the subordinated CDS liquidity criteria, which is determined by Markit Liquidity Scores. See www.markit.com for details.

Removals

Ticker	Name	Sub Index	5Y CDS Spread	6M change	Markit Liquidity Score
BOUY	BOUYGUES	Autos & Industrials	72	-18	1
AIRLIQ	L'AIR LIQUIDE SOCIETE ANONYME POUR L'ETUDE ET L'EXPLOITATION DES PROCEDES GEORGES CLAUDE	Autos & Industrials	42	-11	1
DBB	Deutsche Bahn Aktiengesellschaft	Consumers	51	-12	2
SABLN	SABMILLER PLC	Consumers	82	-5	1
TECFPN	TECHNIP	Energy	80	-20	2
ESPSAN	Banco Espirito Santo, S.A.	Financials	669	267	2
HBOS-ScotBkPLC	Bank of Scotland plc	Financials	169	1	1
OTE	HELLENIC TELECOMMUNICATIONS ORGANISATION SOCIETE ANONYME	TMT	483	201	1
Average			206		

Markit iTraxx Europe HiVol Series 15

Additions

Ticker	Name	5Y CDS Spread	6M change	Markit Liquidity Score
VLVY	Aktiebolaget Volvo	104	-60	1
MICH-CoFinMich	Compagnie Financiere Michelin	104	-4	1
FERRUZ	EDISON S.P.A.	133	24	1
AHOLD	Koninklijke Ahold N.V.	91	1	1
NOKIA	Nokia Oyj	116	18	1
RNTKIL	RENTOKIL INITIAL PLC	155	19	3
TATELN	TATE & LYLE PUBLIC LIMITED COMPANY	90	-39	1
VIVNDI	VIVENDI	102	-11	1
Average		112		

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.

With the exception of OTE (not in the Markit iTraxx Europe 15), all of the names removed from the Markit iTraxx Europe HiVol index are excluded because their spreads are too low. BP's six-month sojourn in the HiVol comes to an end; its spreads have tightened considerably since the furore over the Gulf oil spill has dissipated. Miner Anglo-American has benefitted from the recent rise in commodity prices, particularly gold. The inclusion of Nokia is not a great surprise. The Mobile telecoms equipment maker has performed poorly of late and its spreads have widened since it lowered its 2011 earnings forecast.

Removals

Ticker	Name	5Y CDS Spread	6M change	Markit Liquidity Score
ADO	Adecco S.A.	90	-50	1
AAUK	Anglo American plc	93	-76	1
BPLN	BP P.L.C.	69	-130	1
BRITEL-BritTel	BRITISH TELECOMMUNICATIONS public limited company	89	-47	1
OTE	HELLENIC TELECOMMUNICATIONS ORGANISATION SOCIETE ANONYME	483	201	1
METFNL	METRO AG	89	-36	1
SUEDZU	Suedzucker Aktiengesellschaft Mannheim/Ochsenfurt	80	-46	1
WPPGRP-2005	WPP 2005 LIMITED	82	-50	1
Average		134		

Markit iTraxx Europe Crossover Series 15

Additions

Ticker	Name	5Y CDS Spread	6M change	Markit Liquidity Score
OTE	HELLENIC TELECOMMUNICATIONS ORGANISATION SOCIETE ANONYME	483	201	1

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. Rating upgrades (above BB+/Ba1/ BB+), corporate actions or defaults can also result in exclusion. Only entities that have issued or guaranteed more than EUR100 million publicly traded debt securities are eligible. In addition, eligible credits must have at least twice the average spread of the constituents of the Markit iTraxx Europe non-Financial index, as determined by Markit. Full details can be found on www.markit.com

There are 40 names in the Markit iTraxx Crossover Series 15 index compared to 50 in Series 14. Only one name was added – OTE, which was relegated from the Markit iTraxx Europe. Five of the removals – GKN, Infineon, ISS, Nielsen and Valeo – were excluded on the grounds of their spreads being too tight. Seat Pagine Gialle and ERC Ireland were both removed because their spreads were too wide. KDG and SAS both fell out of the index due to having insufficient debt. The other name to be excluded, FCE Bank, was removed as a result of a new rule. Financial entities are no longer eligible for the Crossover index.

Removals

Ticker	Name	5Y Today	6M change	Markit Liquidity Score
ERCIFT	ERC IRELAND FINANCE LIMITED	4824	2907	1
F-FCEBank	FCE BANK PLC	229	-136	1
GFCFP	GECINA	161	-70	2
GKNLN-Hldgs	GKN HOLDINGS PLC	152	-87	1
IFX-HldgBV	Infineon Technologies Holding B.V.	137	-142	4
ISSH	ISS HOLDING A/S	162	-298	4
KDG	Kabel Deutschland GmbH	254	-128	1
SAS-ScanAirSys	Scandinavian Airlines System Denmark-Norway-Sweden	609	-99	1
SPGIM	SEAT PAGINE GIALLE S.P.A.	945	-965	4
NIECO	The Nielsen Company B.V.	103	-211	2
VLOF	VALEO	128	-91	1
Average		700		

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