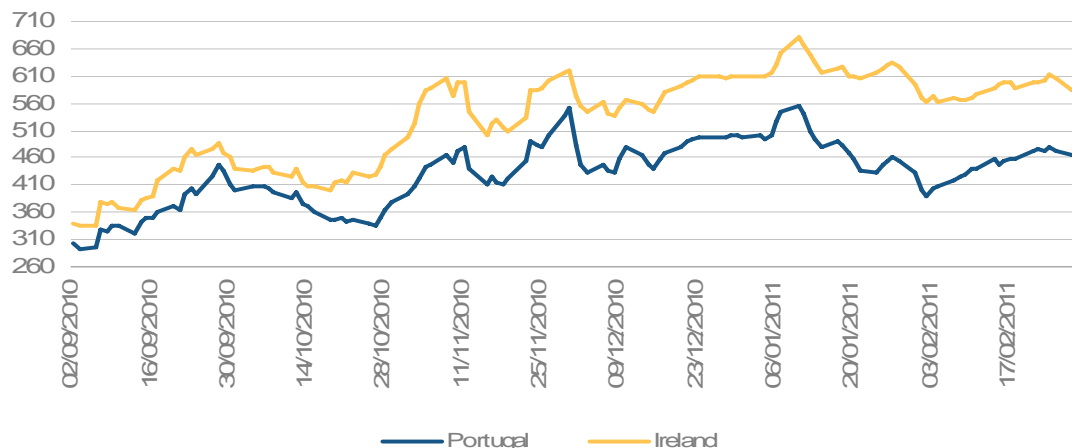


Markit Intraday Alert: Oil dictating sentiment



The oil price continued to power spread direction today, a sharp rise in the commodity late yesterday ensuring that spreads opened wider this morning. The Markit iTraxx Europe was back over 100bp as investors reacted to the price of Brent crude reaching nearly \$117 a barrel. Libya was still catching the headlines, with plans for a no-fly zone apparently creating division within the international community. Pro-Gaddafi forces have been launching counterattacks in an attempt to regain coastal towns. This has prompted calls from anti-government forces for UN military intervention. This was initially supported by the US and UK, but both countries now seem to be rowing back when it became clear that there were few other countries willing to back such action. The control of the ports will have implications for oil supply, and developments there will continue to be closely watched.

But the real concern for investors centred around Saudi Arabia and Iran, OPEC's two biggest producers. Rumours yesterday that Saudi tanks were entering Bahrain caused a reversal in the markets, despite a vigorous denial from the authorities. Saudi stock markets fell sharply, and its sovereign CDS spreads widened to 145bp (+9), though they recovered slightly later in the day. The OPEC plan is for Saudi to cover any supply shortfalls caused by the unrest in Libya, so the potential for turmoil there will obviously place upward pressure on the oil price. And it is not only Saudi. There are signs that the contagion is spreading to Iran amid reports that there has been a major crackdown on protests, though the government is denying that any protests have taken place at all.

A strong open from the US stock markets led to spreads recovering in the afternoon. European sovereigns followed suit, with most of the peripherals finishing tighter on the day. Greece underperformed the rest, but it was Portugal getting most of the attention. The Portuguese Prime Minister is in Berlin today for talks with the German government,

and it is likely that the main topic of discussion was the EFSF. The peripheral countries are keen for the fund to be extended to buying back government debt, which would stave off the immediate pressure for a bailout. But the German line has appeared to harden in recent weeks, with domestic political pressures no doubt a major factor. Speculation will continue until the March 24 EU summit, though there is a chance that the March 11 could produce something meaningful. The Ireland-Portugal compression trade is being touted by some traders, and the basis between the two is at its narrowest since the start of the year.

Further details of the forthcoming EU stress tests were pencilled in for today, but the meeting has been extended though to tomorrow and even then there is no certainty of an announcement.

Gavan Nolan

Credit Analyst

Markit

Tel: +44 20 7260 2232

Email: gavan.nolan@markit.com

For further information, please visit www.markit.com

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