

Markit Intraday Alert: M&A supporting risk appetite



Credit markets rallied today, with risk appetite fuelled by Friday's strong US economic data. The robust non-farm payrolls and ISM manufacturing reports instilled confidence in the US recovery story. That optimism was unlikely to be quashed today amid a dearth of important releases. Even an unwelcome by-product of higher growth expectations – Brent crude approaching \$120 a barrel – couldn't dampen sentiment, though it may well have acted a brake on share price appreciation.

In Europe, the main events of the weeks are rate setting meetings at the ECB and Bank of England. Jean-Claude Trichet has signalled that a rate rise is all but certain this Thursday, and a 25bp hike has been priced in by the markets. Investors will be watching his press conference closely for clues on the pace of monetary tightening this year. The Bank of England, on the other hand, will probably stay on hold, though the split in the MPM makes this far from certain.

M&A activity provided further impetus for credit market tightening this morning. Belgian specialty chemicals firm Solvay announced that it was acquiring French rival Rhodia for EUR3.4 billion. From a credit perspective the deal is a clear positive for Rhodia, a sub-investment grade company with a chequered credit history. In January 2009 its spreads were trading at just under 2,000bp, and many were doubtful that it could survive the year. But the current CEO Jean-Pierre Clamadieu managed to secure financing and turn the company around. Now it will be consolidated into a solid

investment grade balance sheet, and its spreads reflected confidence that the deal will go through and tightened accordingly.

Sovereigns grinded tighter today, with little fresh news about to influence spread direction. But the credit improvement wasn't universal. Portugal's spreads widened to 585bp, close to their record wides, amid uncertainty surrounding its fiscal independence. The leader of the opposition Social Democrats was quoted as saying that he would support a bailout. He later denied this, and said he would only back a short-term loan if the country had liquidity problems in the coming months. In contrast Ireland outperformed today following the stress test results on Thursday evening. The differential between the two sovereigns' spreads is now the smallest since October last year.

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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