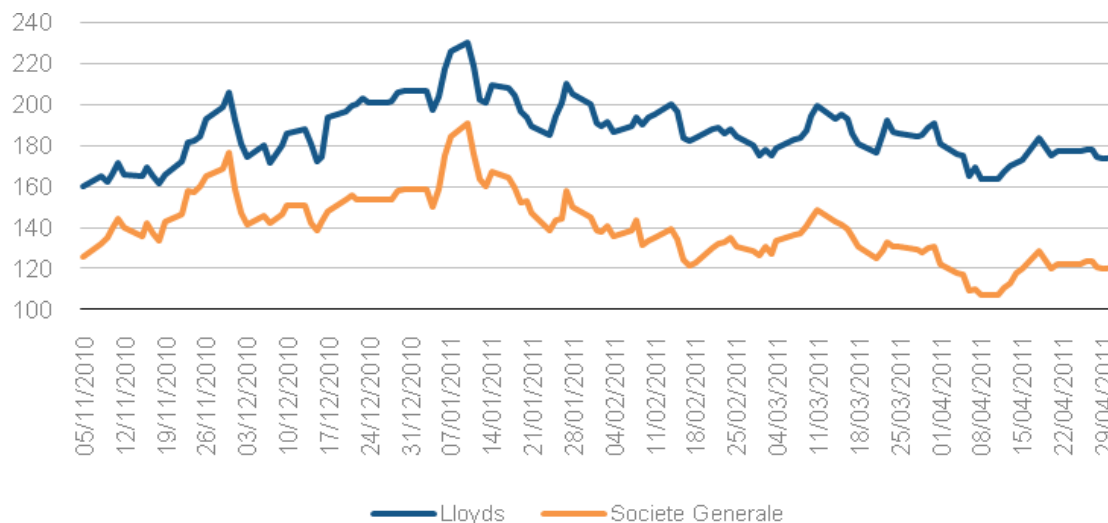


Markit Intraday Alert: Looking for vigilance



Credit has been doing its best to withstand the sell-off in equities but it finally succumbed to risk aversion today. The fear of monetary policy tightening in emerging markets combined with weak economic data in Europe and the US saw spreads widen. This morning German industrial orders unexpectedly dropped in March, falling 4% from a month earlier. Expectations were for a modest increase. The UK, an economy lacking the momentum of its German rival, received more worrying news in the form of the latest Markit Services PMI. The survey for April showed that the rate of growth in the sector slowed sharply from the previous month. Many were concerned by the lacklustre Q1 GDP figures released last week, and the services PMI will add to the fears about the effects of the government's austerity policies in the months ahead.

The Bank of England's MPC is among those that have highlighted the uncertain outcome of the fiscal tightening, so it was no surprise to see it stay on hold at its rate setting meeting today. The ECB also kept its key rate unchanged. But Jean-Claude Trichet did catch the market off-guard at the ECB press conference later in the afternoon. Trichet didn't include the "strong vigilance" term – taken as code for a rate hike at the next meeting. This resulted in a sharp fall in the euro as investors revised their expectations.

A rally in sovereigns helped credit indices outperform their equity counterparts yesterday. But the rally was curtailed today with peripherals giving back some of their gains. The EU and IMF issued a joint statement today confirming that the Portugal bailout package will have a maturity of three years and will amount to EUR78 billion, two-thirds of which will come from the EU with the IMF contributing the remainder. But the interest rate on the EU portion is still unknown, though talk of EFSF yield +200bp has been mentioned. Though the Portugal PM Jose Socrates boasted of the

superior terms compared to Greece and Ireland, it has become clear that the troika will insist on further painful structural reforms.

Portugal's banks, which will receive assistance as part of the bailout, also widened today. They weren't the only financial institutions to lose ground today. British bank Lloyds was one of the worst performers today after its results disappointed. The bank posted a net loss for Q1 of £3.47 billion, mainly due to a £3.2 billion provision for potential compensation claims from payment protection insurance. Losses from its Irish business also weighed on the credit. The net loss overshadowed progress on risk reduction and balance sheet quality. Societe Generale was also wider after its Q1 results missed expectations.

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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