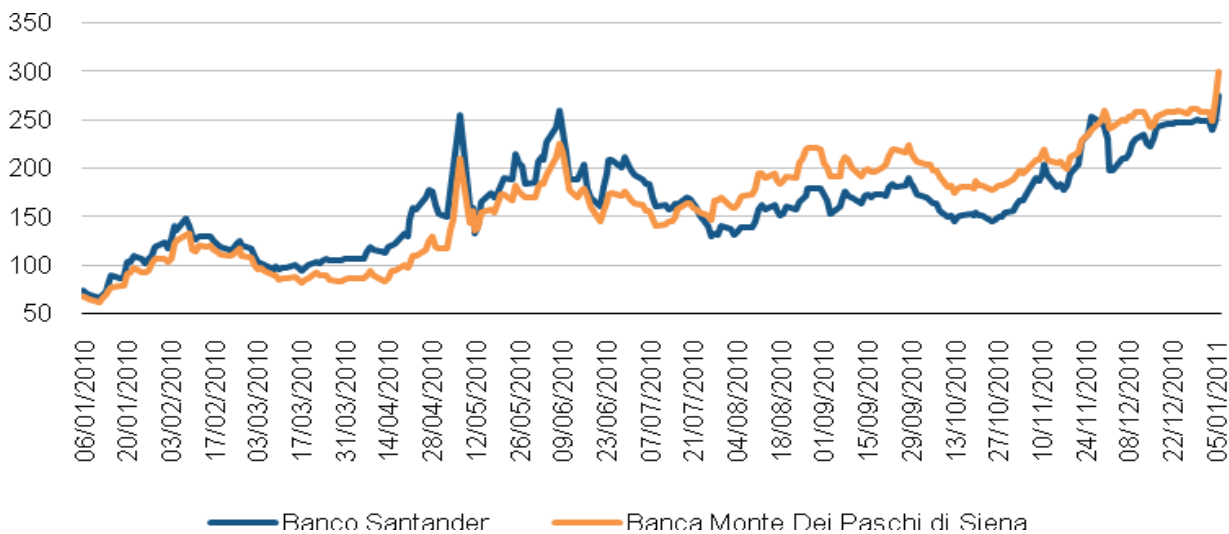


Markit Intraday Alert: Banks under the cosh



Source: Markit

European credit markets underperformed their equity counterparts by some distance today as uncertainty over the fate of senior bank bondholders pushed spreads wider across the board. The Markit iTraxx Senior Financials index widened sharply and was on the verge of exceeding 200bp for the first time since June 2010. Newspaper reports of a possible EU plan that will outline details of bailout burden-sharing by senior bank bondholders have caused panic in the markets. The plan was reported to be scheduled for release today but has yet to materialise.

Nonetheless, the prospect of haircuts for senior bondholders was enough to send spreads spiralling upwards. Several banks hit record wides, particularly those based in the eurozone’s periphery. Banco Santander and Banca Monte were among them, and Spanish and Italian banks were the worst performers today. But the deterioration was not confined to the periphery, with German, British and French banks all widening considerably. Liquidity worsened during the afternoon and bid/ask spreads were gapping out, according to traders. The widening was concentrated in senior CDS, and the basis between the senior and sub index tightened.

It might be thought that senior bank bondholders taking some of the strain of any future bailouts would be positive for sovereigns. After all, it was the cost of rescuing its beleaguered banking industry that sent Ireland into the arms of the EU and IMF. But investors are aware that the systemic risk from the banks is still present and sovereigns can’t protect themselves completely from its effects. Thus the Markit iTraxx SovX Western Europe hit a new record level today of 213bp. Belgium was the worst performer after the latest bid to form a government failed. It is now seven months since the general election and the political stalemate is clearly a concern for investors. Its spreads are now at a record wide level.

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