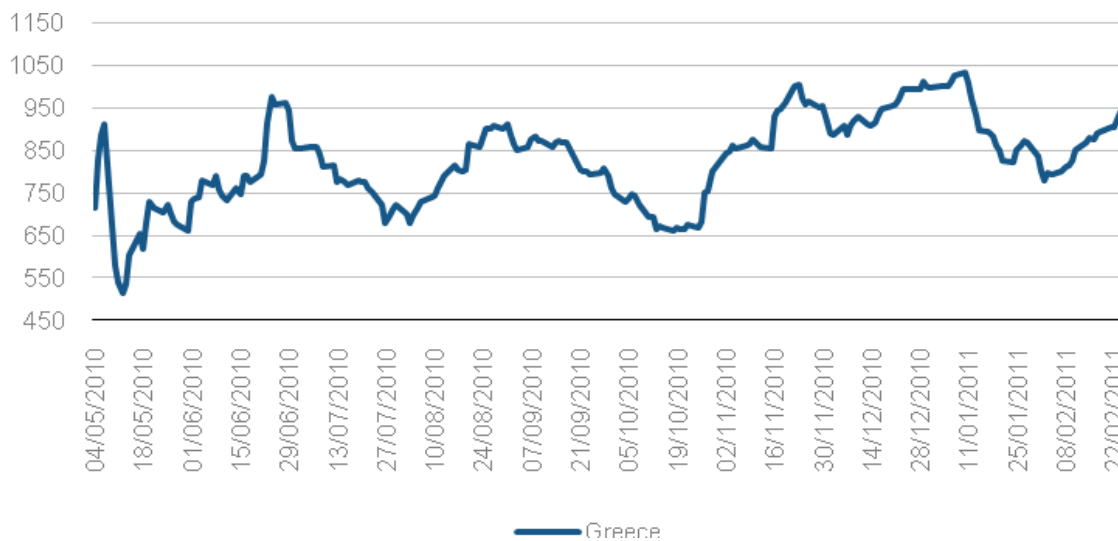


# Markit Intraday Alert: Greek indignation



European credit markets underperformed their equity counterparts today, with sovereigns widening ahead of the interim EU summit on Friday. Greece was the main focus this morning after Moody's surprised the markets with a multi-notch downgrade. The agency cut its rating to B1 from Ba1 and left it on negative outlook, citing the country's large debt burden and the significant implementation risks to structural reform. Moody's also raised the possibility of a post-2013 debt restructuring, a view shared by many market participants.

Greece's government called the downgrade "completely unjustified" but the sovereign's CDS spreads suggest otherwise. The deterioration in the country's credit profile was also reflected in the bond market. Greece's 5.9 2022 bond was trading at 66.6 this afternoon, down from 68 yesterday, according to Markit Evaluated Bonds.

The cash market was also placing Portugal's CDS spreads under pressure. The sovereign's 10-year yields hit a wide of 7.5% amid persistent speculation that it will follow Greece and Ireland and accept a bailout in the coming weeks. A German magazine article today indicated that domestic opposition against extending the EFSF is hardening. But EU commissioner Olli Rehn said today that he is open to the idea of extending the length of Ireland's loans and reducing the interest rate. The divisions within the EU appear to be quite distinct and it won't be easy to achieve compromise at the next two meetings.

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An EU official said today that the bank stress tests are unlikely to include the scenario of a eurozone government default. The fact that the last stress tests didn't evaluate sovereign holdings in banking books was considered a major flaw by many market participants.

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**Gavan Nolan**

**Credit Analyst**

Markit

Tel: +44 20 7260 2232

Email: [gavan.nolan@markit.com](mailto:gavan.nolan@markit.com)

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