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Markit Credit Research

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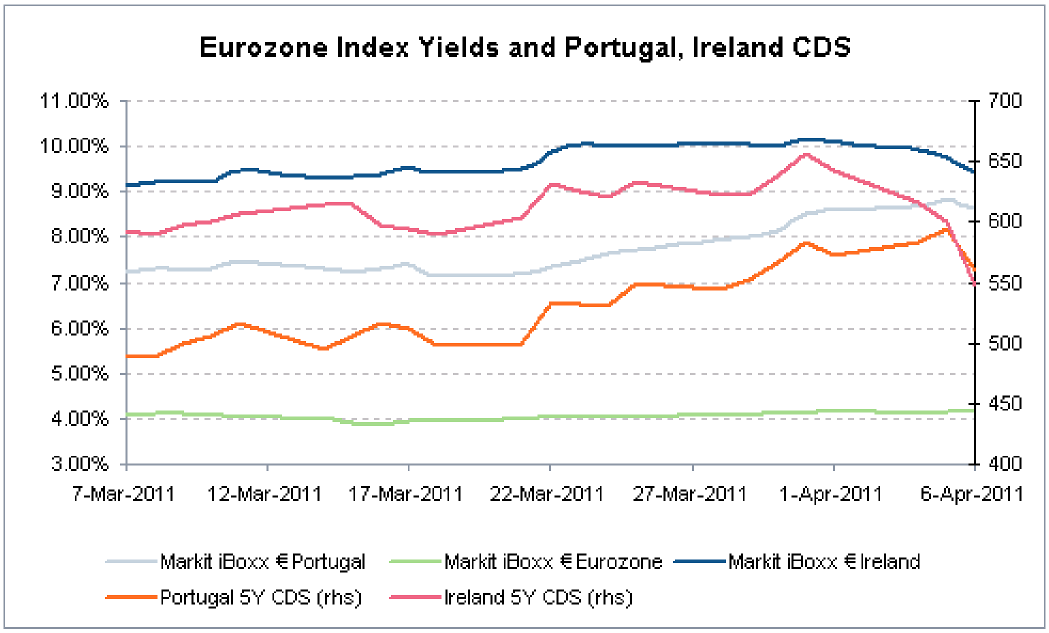
Markit Intraday Alert: Anticipated But Still Monumental Events



- Markit iTraxx Europe S15 96.5bp (+1.5), Markit iTraxx Crossover S15 363.0bp (+4.2)
- Markit iTraxx SovX Western Europe S5 162.0bp (+4.3)
- Markit iTraxx Senior Financials S15 126.0bp (+5.2)
- Markit iTraxx Subordinated Financials S15 214.0bp (+8.3)
- Sovereigns - Greece 990bp (+32.4), Spain 204bp (+3.0), Portugal 555bp (+1.3), Italy 132bp (+2.4), Ireland 530bp (-3.6)
- Portuguese Banks (Senior) – Bco Comercial Portuguese 587bp (-30), Bco Espirito Santo 545bp (-11.0)

It was an eventful day in the markets even if mostly anticipated. Let's start with Portugal. Most have been anticipating an eventual Portuguese request for a bailout since at least the time of Prime Minister Jose Socrates' resignation if not even before. The timing however was open to some debate as market participants widely believed that the government had enough funds to service the upcoming bond payments in mid-April and with some politicians widely denying that a request would be imminent. The elevated yield levels for longer term Portuguese debt as indicated by the Markit iBoxx € Portugal Index proved though that a bailout was imminent. Earlier in the week, yields climbed above 10%. What made matters more convincing though were the dismal results of yesterday's short-term auction. With average yields on six-month T-bills more than doubling since the previous auction and Portuguese banks reportedly prepared to balk at buying new issues, the government elected to begin the process of a bailout sooner rather than later. Having done so, there could be challenges ahead given the current caretaker government ahead of June 5 elections.

Market reaction for the day started with Portuguese CDS spreads tighter to 533 bp on heavy short covering before ending the day just a touch wider. Part of this is explained by simple exhaustion of the short covering but some of it also simply had to do with the uncertainty around the aid package as they await details. Estimates for the size of the bailout have been floated at around 75 to 90 billion euros but just as important if not moreso is what conditions may come with the aid, particularly austerity measures. As details come forth, the facts will have the opportunity to influence market tone in the days ahead. Spreads for Portuguese banks remained significantly tighter even while the rally in financials lost steam today.

The ECB's raising of rates by a quarter of a percentage point too was widely anticipated, prompting little in the way of market reaction. As it was the first time the bank has raised rates in three years, the event still captured the imagination of the public and dominated financial headlines. The move if nothing else will continue to fuel debate among market watchers as to whether the move is appropriate considering the struggles of the challenged peripheral credits versus concerns of rising inflation in the recovering economies. Mr. Trichet did make it clear that this move was not necessarily the first in a series which is entirely sensical given the circumstances. Well telegraphed and measured will be the protocol of many a central bank perhaps moreso in the next few years than ever before.

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