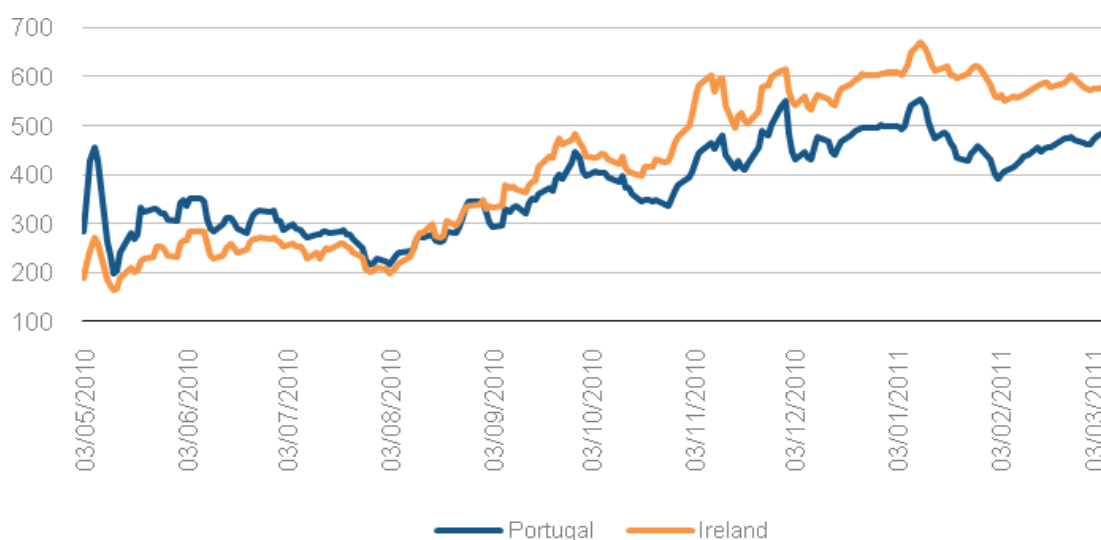


## Markit Intraday Alert: Stressful enough?



Financials continued to act as a drag on credit as it underperformed equity for a second consecutive day. The impending stress test results from Ireland are creating understandable nerves in the market, and there is considerable uncertainty over the capital shortfall that will be announced. Reports emanating from Ireland suggest that the figure will be well within the EUR35 billion that has been set aside as part of Ireland's bailout. But if the figure is significantly lower than expected it could create doubts about the validity of the tests. To add to the nervy conditions reports are emerging that the expected ECB medium-term facility for Irish banks will not be announced today. Ireland's CDS spreads are trading around 650bp, just 20bp below the record wide levels reached in January.

The prospect of burden sharing for senior bondholders in Irish banks, though still unlikely, is hanging over the financial sector and forcing spreads wider. Spanish banks are undercapitalised and were among the worst performers today. Spain's economy is similar to Ireland in that a prudent public sector has been burdened with the debts of a profligate private sector. The doubts over the strength of the Spanish banks led to the sovereign underperforming today.

Portugal's banks are also weak, and are largely dependent on the ECB for funding. The dire state of its banks have helped to Portugal's spreads wider, though the poor overall condition of its public finances have also played their part. And it is only getting worse. Today the government revealed that its budget deficit for 2010 was 8.6%, well over the target of 7.3%. The miss was due to a cash injection of EUR2 billion into the nationalised Banco Portugues de Negocios, which was previously accounted for as an asset. The revision led to Portugal's sovereign spreads climbing

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to 590bp, and its 10-year bond yield rising to 8.25%. The inversion of the yield curve continued, with the three-year yield now over 9%, according to Markit Evaluated Bonds.

Spread updates and commentary post-stress tests will be on Twitter from 4:30.

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## Gavan Nolan

### Credit Analyst

Markit

Tel: +44 20 7260 2232

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

For further information, please visit [www.markit.com](http://www.markit.com)

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