

# Markit Update: Markit iTraxx Europe index rolls

The final membership of the new Markit iTraxx indices, scheduled to roll on 20 September, 2010, was announced this week. The following report outlines the changes and provides some colour on the constituents.

## Markit iTraxx Europe Series 14

### Additions

Ticker	CLIP	Name	Sub Index	5Y Today	6M change	Markit Liquidity Score
KINGFI	04DEC96	KINGFISHER PLC	Consumers	126	29	1

The Markit iTraxx Europe index portfolio is constructed by dealer liquidity poll, administered by Markit. Entities can be added or removed according to their relative liquidity rankings. Rating downgrades (to anything with a BBB-/Baa3/BBB- rating on negative outlook or below), corporate actions or defaults can also result in exclusion.

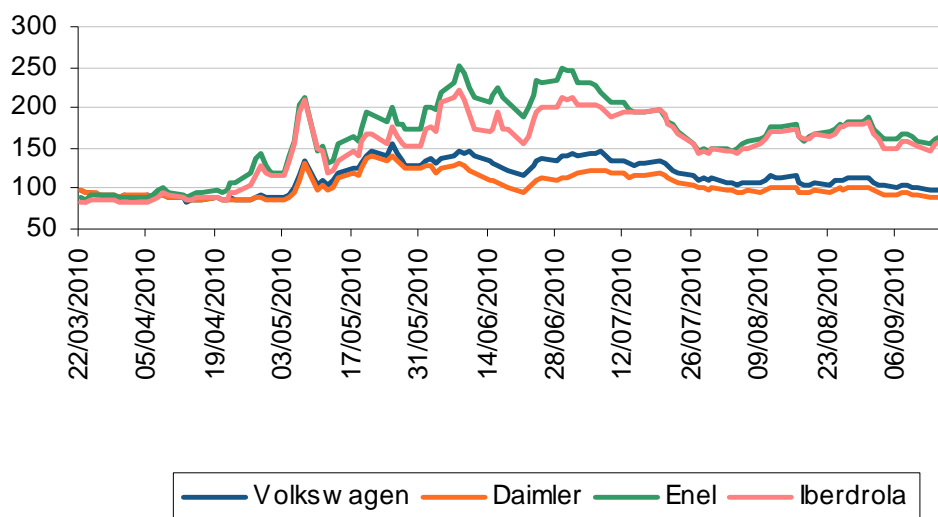
Sector constraints: 30 autos & industrials, 30 consumers, 20 energy, 20 TMT and 25 financials.

There is only one change this roll, the lowest number on record for the Markit iTraxx Europe index. J Sainsbury has no outstanding unsecured debt after a securitised refinancing in 2006, and in May this year requested the withdrawal of its ratings from Moody's and S&P. This makes it ineligible for inclusion. UK retailer Kingfisher has been a member of the index in the past. The two credits trade at similar levels, so the change should have little impact on where the new index trades.

### Removals

Ticker	CLIP	Name	Sub Index	5Y Today	6M change	Markit Liquidity Score
SBRY	4AC86D	J SAINSBURY plc	Consumers	118	20	1

## Markit iTraxx Europe HiVol Series 14



## Additions

Ticker	CLIP	Name	5Y Today	6M change	Markit Liquidity Score
BAPLC	05A75U	BAE SYSTEMS PLC	132	45	1
BPLN	05AB84	BP P.L.C.	232	187	1
GROUPE	FG554O	CASINO GUICHARD-PERRACHON	127	36	1
ENEL	2BB8B1	ENEL S.P.A.	156	71	1
IBERDU	EK77AV	IBERDROLA, S.A.	148	66	1
KINGFI	04DEC96	KINGFISHER PLC	126	29	1
TELEFO	8FGCBA	TELEFONICA, S.A.	134	56	1
TNT	NVECD9	TNT N.V.	115	54	2
<b>Average</b>			<b>146</b>		

The Markit iTraxx Europe HiVol index portfolio is selected by taking the 30 entities from the iTraxx Europe non-Financials index with the widest 5-year spreads, as determined by Markit.

With the exception of J Sainsbury, all of the names removed from the Markit iTraxx Europe HiVol index are excluded because their spreads are too low. Three auto-related credits (Daimler, Volkswagen and Michelin) are among them. Typically, the auto sector is regarded as highly cyclical, and spreads in most car makers widened dramatically during the recession. But the auto industry has political clout and benefited from government stimulus measures to support demand for cars. A strong recovery in the German economy has also helped. In contrast, the utilities sector – traditionally regarded as defensive – contributes two names. Enel and Iberdrola are both highly indebted and are trying to raise funds to reduce their leverage. But more importantly they are both based in peripheral eurozone countries –

Italy and Spain respectively – and are exposed to the budgetary problems affecting their governments. Much of the spread widening over the past six months is due to sovereign debt problems spilling over. BP, of course, has its own problems and it is no surprise to see it included in the HiVol index.

### Removals

Ticker	CLIP	Name	5Y Today	6M change	Markit Liquidity Score
BERTEL	DE1088	Bertelsmann AG	105	-37	1
MICH-CoFinMich	2C47IG	Compagnie Financiere Michelin	106	6	1
DAMLR	DE7C9Q	Daimler AG	89	-6	1
IMPTOB	4J8456	IMPERIAL TOBACCO GROUP PLC	97	1	1
SBRY	4AC86D	J SAINSBURY plc	118	20	1
LNKX	DI535D	LANXESS Aktiengesellschaft	122	15	1
VIVNDI	FOGGHN	VIVENDI	110	16	1
VW	9BAEC8	VOLKSWAGEN AKTIENGESELLSCHAFT	97	2	1
<b>Average</b>			<b>106</b>		

### Markit iTraxx Europe Crossover Series 14

#### Additions

Ticker	CLIP	Name	5Y Today	6M change	Markit Liquidity Score
CAWILD	GJ476R	CABLE & WIRELESS LIMITED	393		4
CAWPLC	GH9BC7	CABLE & WIRELESS WORLDWIDE PLC	368		4
CONTI	2D17E8	Continental Aktiengesellschaft	451	65	1
SAS-ScanAirSys	W3CA79	Scandinavian Airlines System Denmark-Norway-Sweden	665	-72	
STENA	W4FCDX	Stena Aktiebolag	477	179	1
TOMKIN	8H9033	TOMKINS PLC.	362	262	2
<b>Average</b>			<b>453</b>		

In a similar manner to the Markit iTraxx Europe index, the Markit iTraxx Crossover index is constructed by a dealer liquidity poll. Entities can be added or removed according to their relative liquidity rankings. Rating upgrades (above BB+/Ba1/ BB+), corporate actions or defaults can also result in exclusion. Only entities that have issued or guaranteed more than EUR100 million publicly traded debt securities are eligible. In addition, eligible credits must have at least twice the average spread of the constituents of the Markit iTraxx Europe non-Financial index, as determined by Markit.

Following the demerger of Cable & Wireless PLC, the ISDA Determination Committee ruled that there were two successor entities, Cable & Wireless Ltd and Cable & Wireless Worldwide Plc. Both are included in the new Crossover index, though liquidity is still relatively poor in these new names, as shown by the Markit Liquidity Score (1 is the highest, 5 the lowest). Volvo's spread was too tight for inclusion, another indication of the relative strength of the auto sector. Cognis, Lufthansa and International Power (currently being taken over by stronger credit GDF) were also excluded on these grounds. Tomkins joins the Crossover after it agreed to be acquired in a leveraged buyout.

## Removals

Ticker	CLIP	Name	5Y Today	6M change	Markit Liquidity Score
VLVY	9BAGDB	Aktiebolaget Volvo	166	-24	1
CWLN		CABLE & WIRELESS PLC			
COGN	DE69AI	Cognis GmbH	67	-288	5
LUFTHA	2H66B7	Deutsche Lufthansa Aktiengesellschaft	195	10	1
IPRLN	4A619U	INTERNATIONAL POWER PLC	158	-50	3
NTCHA		NORDIC TELEPHONE COMPANY HOLDING ApS			
<b>Average</b>			<b>147</b>		

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