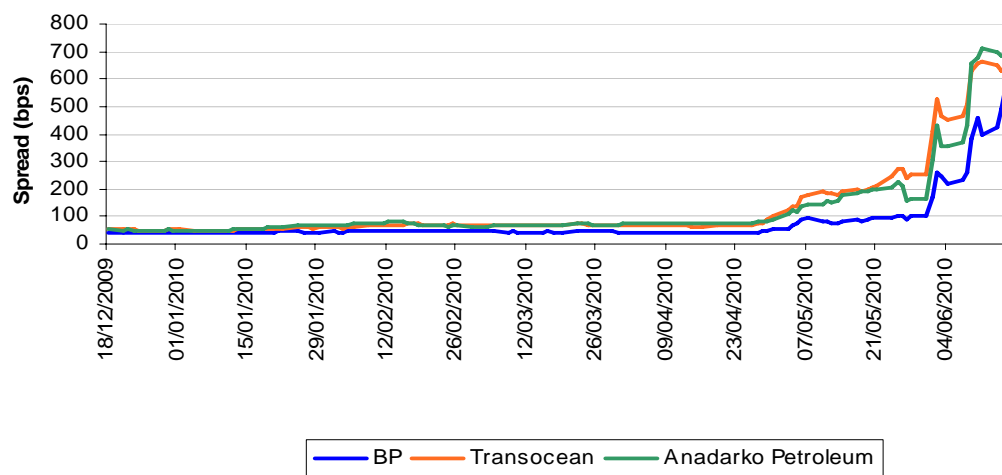


Markit Intraday Alert: A line in the sand?



Source: Markit

European credit markets staged a strong rally today, comfortably outperforming their lacklustre equity counterparts. A declining US stock market, usually the nemesis of any European rally, had little effect. The Markit iTraxx Europe is 5bp tighter at 121.5bp, while the Markit iTraxx Crossover is 19bp tighter at 543bp. Both indices gained ground during the afternoon.

As expected, BP's spreads recovered strongly after it reached an agreement with the US government late yesterday. The company has said it will set up a \$20 billion fund to cover damages claims from third parties, response costs from governmental entities and natural resource damages claims. The uncertainty surrounding BP's liabilities has caused the company's spreads to trade at punitive levels, and its credit curve was steeply inverted. The agreement has assuaged some of these concerns, and the firm's spreads tightened dramatically to below 400bp.

However, they gave up some of their gains in the afternoon, with profit taking no doubt playing a part. It is also clear that BP's liabilities haven't been capped by the fund, and the company could face litigation risk for years to come. Reports that BP is planning on issuing \$5-\$10 billion in debt could also be putting widening pressure on the CDS.

Elsewhere in the single name market the tone was positive, with few credits widening over the day. Financials enjoyed a strong session, the Markit iTraxx Senior Financials outperforming at 156.5bp, 12bp tighter on the day. News that the EU is close to approving the results of bank stress tests boosted the sector. Sovereigns also tightened after a weak start, Spain's well received 10-year bond auction providing a fillip.

In North America, credit indices shrugged off falling stock markets and disappointing economic news. The Markit CDX IG was trading 3.5bp tighter at 114.

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