

# The Portuguese RMBS Market

## A Week in Review: 05 – 12 September 2007

As we had expected last week, the ECB did not increase interest rates on 6 September, leaving them unchanged at 4%.

A number of factors will have influenced this decision such as disappointing macroeconomic indicators and the ongoing market turmoil. In Europe in general, growth rates have been lower than expected which will put pressure on 2008 budgets.

The effects of the sub-prime crisis continue to be felt - even beyond the financial sector. The US non-farm payrolls report ushered in more gloom with figures showing that 4,000 jobs had been lost in August. Countrywide further compounded negative sentiment with its announcement that it was to cut 12,000 jobs.

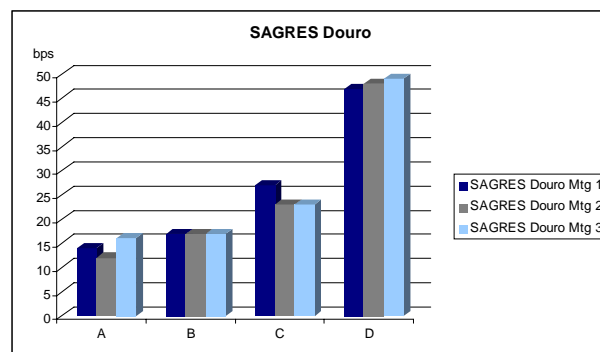
European ABS markets saw spreads on almost all securities widen as they braced themselves for more bad news.

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
DELPHIN04-1 1 C EUR	Delphinus 2004 1 Bv	XS0185358230	136.266	30.52	BBB	RMBS	1.384
CHESTER01-A UK2001-A B GBP	Chester Asset Recs Dgs 2001 A PLC	XS0137193222	73.267	29.83	A	Credit Card	1.022
HERMESVI 1 C EUR	HOLLAND EURO DENOMINATED Mtg BACKED S	XS0168103041	149.835	28.24	BBB	RMBS	2.2
BERICAT 1 A EUR	Berica Residential MBS 1 Srl	IT0003641005	41.23	26.94	AAA	RMBS	4.825
LOTHMORT2 1 D EUR	Lothian Mtgs No2 PLC	XS0176204443	125.828	25.61	BBB	PRMBS	1.122
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
CLARISFIN07 2007 A EUR	Clarifin 2007 Srl	IT0004189160	45.513	-3.1	AAA	RMBS	5.62
PERMANFIN5 4 C EUR	Perm Fing No 5 PLC	XS0197063117	146.399	-1.27	BBB	PRMBS	2.259
HERMES13 XIII A2 EUR	Holland Mtg Backed Ser Hermes XIII BV	XS02916663820	41.312	-0.58	AAA	RMBS	4.512
UCH17 17 A2 EUR	Fondo Titul Activos UCI 17	ES0337985016	32.59	-0.46	AAA	RMBS	6.249
MMSC2 2 A2 EUR	Marche Mutui 2 S per la Cartolarizzazione a rl	IT0004124977	51.034	-0.1	AAA	RMBS	6.42

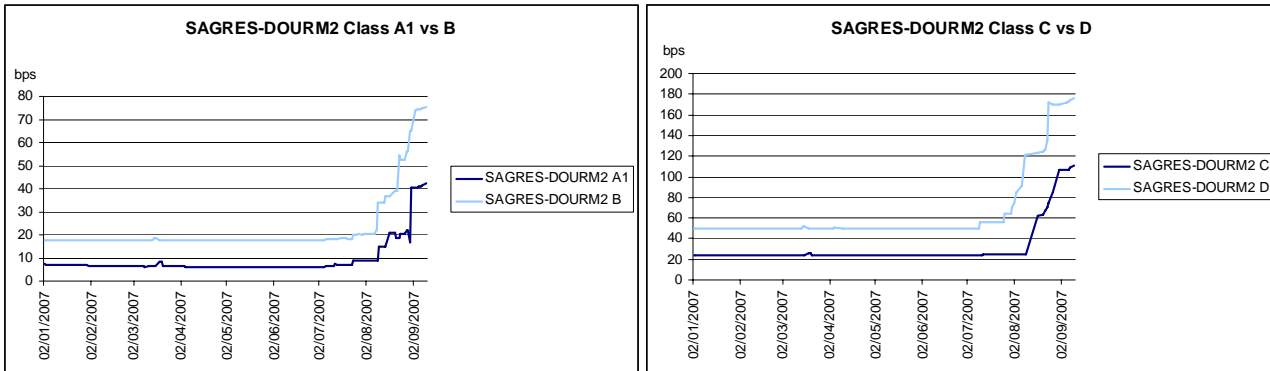
While Spain and the UK have been hardest hit, other countries such as Portugal are also beginning to show worrying signs. This is in part due to the fact that the Portuguese economy is largely dependent on Spain with a good third of its exports going to its Iberian neighbour.

The Portuguese ABS market is nascent with a limited number of securitisation programmes such as Chaves Funding or Douro Mortgages (RMBS). The first Douro Mortgages deal was issued in November 2005 and a new deal is issued every nine months – most recently at the end of July this year. What is interesting about Douro Mortgages 3 is that pricing is at similar levels to previous issues despite current market volatility, with only the A tranche affected.

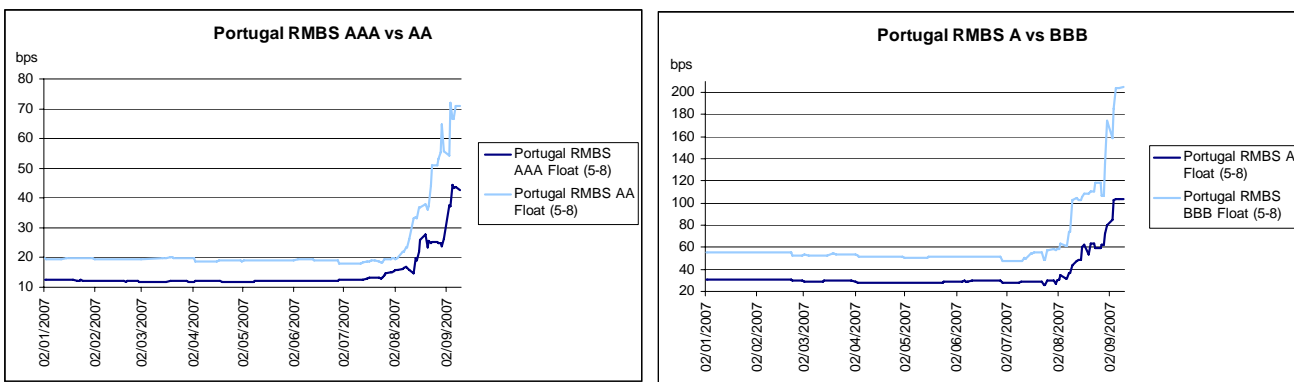
Class	SAGRES Douro Mtg 1	SAGRES Douro Mtg 2	SAGRES Douro Mtg 3	Rating
A	14	12	16	AAA
B	17	17	17	AA
C	27	23	23	A
D	47	48	49	BBB



However, in early August there was an adjustment across all tranches in Portuguese deals. A dramatic example is Douro Mortgages 2 where pricing for the A tranche (Class C) increased by a factor of five.



The readjustment we are seeing in Markit’s Portuguese sector curves has not as yet reached the levels for Spanish and UK sub-prime deals. However, they are continuing to widen without showing signs of stabilisation, much like the rest of Europe.



While European lenders have so far managed to avoid collapse, this week was marked by the news that a UK sub-prime specialist, Victoria Mortgages, had become the first British lender to go into administration following the sub-prime rout in the U.S.

It now appears increasingly likely that the Fed will announce an interest rate cut to its funds rate on 18 September. The question on everyone’s lips is: Will monetary policy be sufficient to contain the credit crisis?

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