

The Australian RMBS Market

A Week in Review: 05 – 12 February 2008

The European primary securitisation markets have seen little activity during the last two weeks with only four deals priced in continental Europe:

- PB consumer 2008-1, which focuses on German unsecured loans,
- Goldfish Master Issuer Series 2008-I, a Dutch mortgage programme,
- PEARL Mortgage Backed Securities 3, another Dutch mortgage deal, and
- IM Cajamar 6, a Spanish RMBS deal.

We note that German and Dutch RMBS spreads, despite widening slightly over the last month, are still the lowest in Europe.

In the U.S., the Fed's 125 bps cut, despite making access to funding easier, has not had a positive effect on the secondary markets. Following the sub-prime mortgage meltdown, it is now the growing number of delinquencies in the credit card business that plagues ABS investors.

In Europe, the Bank of England cut interest rates by 25 bps on 7 February however the European Central Bank rates remains on hold. Despite projections of rate cuts in the order of 100 bps by the end of the year, in the short term the market expects both the Bank of England and the European Central Bank to put their rates on hold in a bid to keep inflation down.

Additionally, the focus remains firmly on financial institution shares with Northern Rock's future still hanging in the balance and widespread rumours of a takeover of Société Générale by HSBC or BNP Paribas. Despite having suffered significant losses, the fact that European banks are still able to finance massive acquisitions with shares and cash must surely be a positive sign.

In the UK, the Halifax House Price index shows January house prices remain unchanged from December and are 4.5% higher than they were this time last year. Halifax predicts that house prices will remain flat in 2008.

According to our data, there are no gainers this week. This is due to the current ABS volatility. The five deals whose spreads have widened the most are as follows:

ABS Losers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMAST05-1 2005-1 C2 EUR	Granite Master Issuer plc 2005 1	XS0210929914	539.773	82.6	BBB	PRMBS	2.118
GRANMAST06-1 2006-1 C4 EUR	Granite Master Issuer plc 2006 1	XS0240608702	564.241	54.57	BBB	PRMBS	3.033
GRANMAST05-1 2005-1 M3 GBP	Granite Master Issuer plc 2005 1	XS0210926225	327.223	39.09	A	PRMBS	2.123
GRANMORT03-3 2 B EUR	GRANITE Mtgs 03 3 PLC	XS0176410180	212.819	30.63	AA	PRMBS	0.878
GRANMAST06-2 2006-2 A5 EUR	Granite Master Issuer plc 2006 2	XS0252421499	149.091	17.36	AAA	PRMBS	3.314

With little happening in terms of deal issuance in the European and American securitisation markets, now is a good time to take a look at the Asia Pacific securitisation market. The various markets in the region are disparate in terms of levels of activity. Australia has the most active ABS market in the region and uses many securitisation structures similar to those found in Europe.

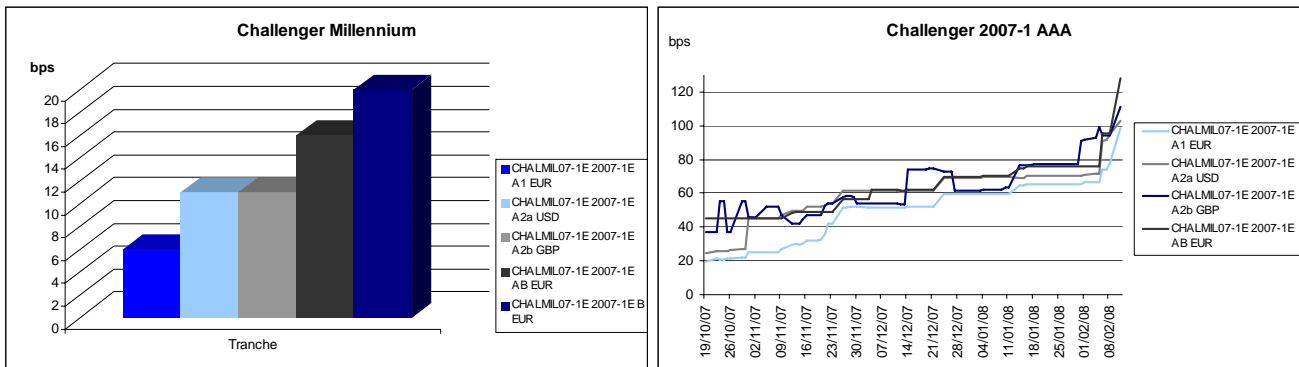
The main Australian issuers are listed below:

Issuer's name	Issuer's name
ACE Fdg Ltd	Natl Mutual Home Lns Secn
AIMS	Pepper Residential Secs
APOLLO Ser	Perp Trustee Co Ltd
ARMS	Progress
Centro Shopping Centre Secs Ltd	Puma
Challenger Millennium	RBS
Compass Master Tr	Resimac Premier
Crusade	Sapphire
FirstMac	REDS Tr
GBS Recs	Swan Tr
HBS	Harvey Trust
Illawarra	SMART
Interstar	SMHL Glob Fd
Medallion Tr	Superannuation Members Home Lns Glob Fd
Momentum CDO	Torrens
Multiplex MPT CMBS	WB Tr

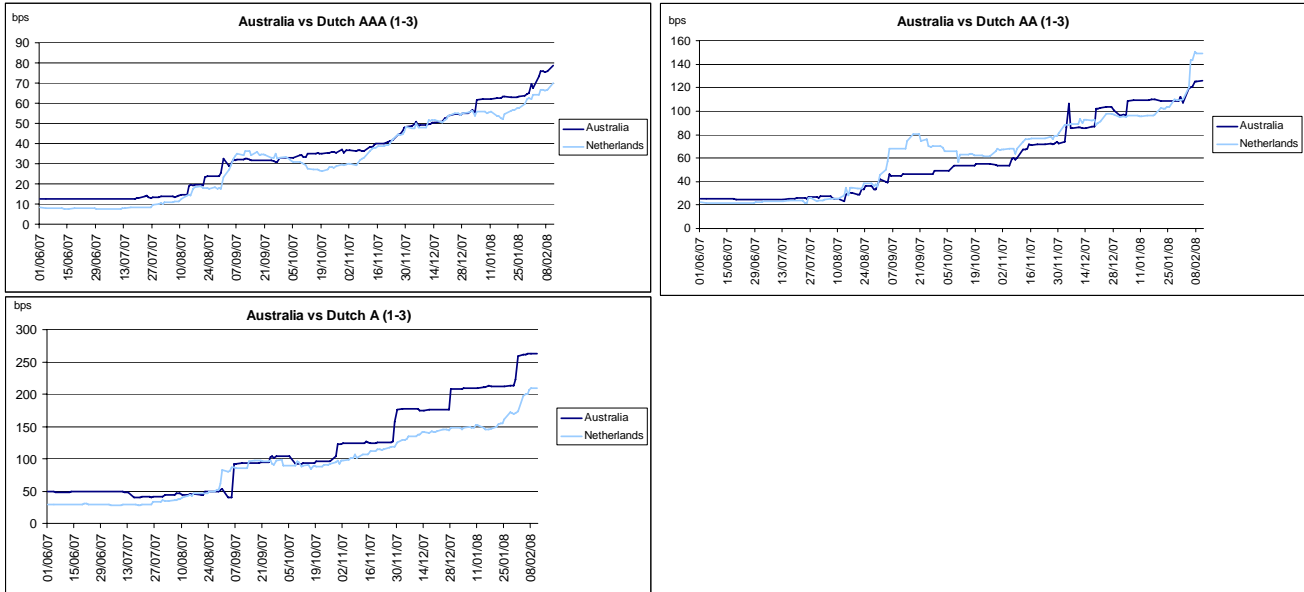
The Reserve Bank of Australia has followed an aggressive anti-inflationary policy with current interest rate at 7% following a 25 bps increase on 5 February. This policy has affected home owners – specifically, real estate affordability.

Decreasing real estate demand has led to a drop in property values. This will put pressure on the Loan to Value of existing mortgages and borrowers' ability to refinance. Two market participants, MFS and Centro, recently announced losses relating to property value and refinancing.

From a secondary market perspective, the spreads have followed those of the broader ABS market. Challenger Millennium 2007 which was issued in January last year, gives us a good overview of the current market. No unusual delinquencies have been reported in this deal so far and the most senior tranche has already repaid a third of its principal:



We note that Australian and Dutch spreads are very close. This can be explained by the good credit quality of borrowers in both countries and the fact that expected default and delinquency rates are coming in at similar levels.



The high quality collateral in Australia and The Netherlands makes their paper increasingly attractive and sought after by the newly created distressed debt funds.

Philippe Pagnotta

ABS Analyst, Structured Finance

Markit

Tel: +44 20 7260 2214

Email: philippe.pagnotta@markit.com

For more information on Markit's ABS products, please contact: sfsales@markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.