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Markit Structured Finance Research

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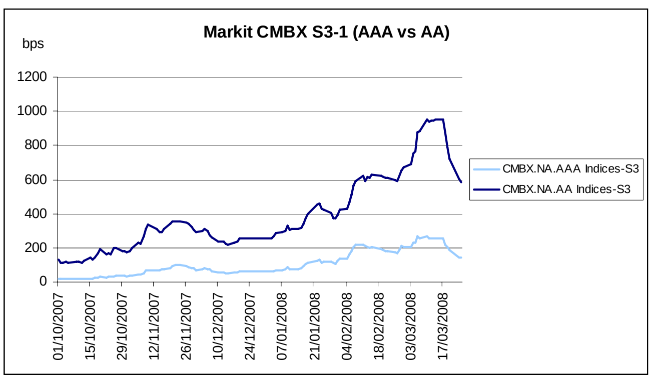
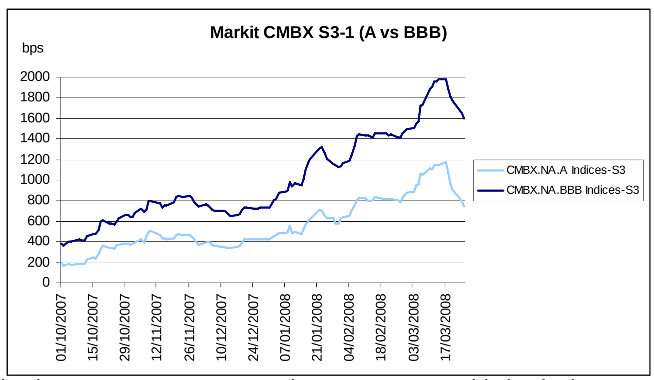
The Dutch RMBS Market

A Week in Review: 19 – 26 March 2008

The week is off to an interesting start with positive actions from both sides of the Atlantic. In addition to the Fed's considerable rate cut, central banks in Europe are considering getting more involved with the ABS market and assuming some of the private markets' ABS debt. Such a move would allow them, particularly the European Central Bank (ECB), to purchase Investment Grade -rated securities at low prices which could in turn bolster market liquidity. This public support could spur investment banking credit departments to, again, commit funds to this "cheap" sector. Conscious of risk control, many banks have not allowed long positions in this market for months due to the expected high default rate for AAA securities.

These actions from central banks are more than welcome by the market. Since last week's Fed's cut, and a similar announcement that it will purchase Investment Grade ABS from the secondary market, both the Markit ABX.HE and the Markit CMBX.NA have improved dramatically. Spreads on the indices have been tightening by 120 bps for AAA tranche and by 300 bps for the BBB tranche in a week's time:





Investors might have expected a similar improvement within the European ABS market. However, with both the ECB and the Bank of England maintaining a hold on interest rate levels, spreads have not tightened in Europe like they have in the US. Once again, we saw no improvers in Europe this week and mainly of our deteriorators are focusing on Dutch RMBS:

ABS Deteriorators

Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
MOUNDF4 3 3A EUR	MOUND Fing NO 4 PLC	XS0229402366	199.212	34.64	AAA	PRMBS	2.501
DMPL4 1 A EUR	Dutch Mtg Portfolio Lns Iv Bv	XS0194097167	130.557	32.98	AAA	RMBS	2.703
PERMANFIN8 4 A EUR	Perm Fing No 8 PLC	XS0220348550	167.102	23.72	AAA	PRMBS	2.61
DUTCHMORT2 1 A EUR	Dutch Mtg Portfolio Lns II BV	XS0170059017	124.014	19.75	AAA	RMBS	2.867
HERMES13 XIII A2 EUR	Holland Mtg Backed Ser Hermes XIII BV	XS0291663820	118.251	7.9	AAA	RMBS	4.08

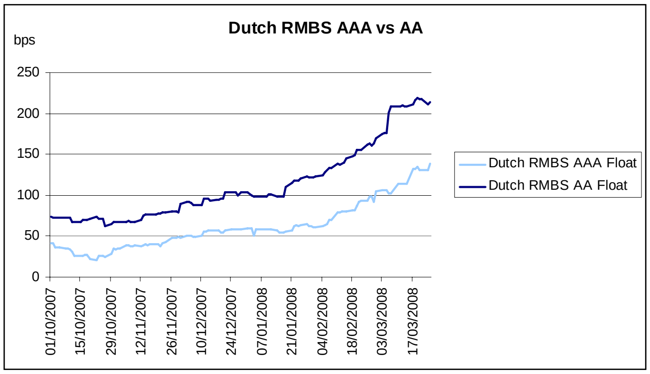
In the primary market, we are still only seeing a limited number of new deals priced

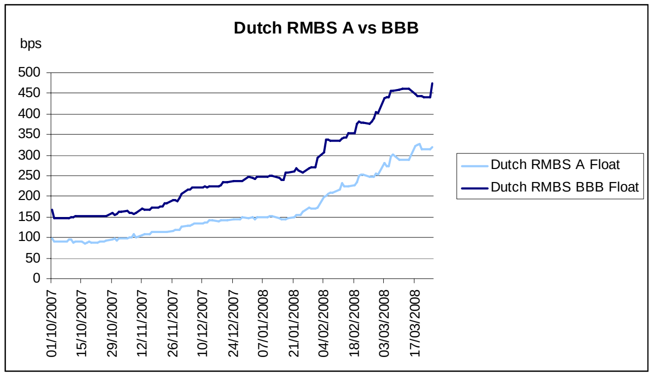
Deal	Country/Sector	Class	av Rating	Spread (bps)	Amount (€ mn)
EMF-Uk 2008-1 PLC	UK/PRMBS	A1	AAA	100	88
		A2	AAA	125	51
		A3	AAA	150	295
		B		200	53
Syracuse Funding CFO	International/CDO	CF	AAA		10.6
		A	AAA	50	19.1
		B	AA	90	3
		C	A	175	2
		D	BBB	325	3
		P			9

After the UK PRMBS, it is now the Dutch RMBS market which is becoming very popular among single name ABCDS players. This is driving the cash ABS markets to levels unimaginable just six month ago.

It is important to remember that, in the fourth quarter of 2007,, many investors were not seeing the spreads for this benchmark sector getting any wider than 55 bps and went long until the beginning of 2008.

With Dutch AAA ABCDS now trading at 160 bps (mid), it is obvious that the cash AAA securities could not have remained at much tighter levels despite good macroeconomic views regarding this country which maintains one of the lowest levels of default in Europe:





The recent announcements from the American and European central banks aimed at decreasing the global risk aversion on securitised products has been met with a strong positive response from the US markets. This was not the case after the Fed's 75 bps in January which was not accompanied by any further action.

With no real defaults so far in Europe, traditional ABS investors were matching their view of the market on the US marketplace. With American securities improving dramatically during the last week, we should expect to see some recovery within the European ABS market even if only temporarily. If the plan from the ECB materialises in the near term future and with a substantial amount of liquidity, these gains could be seen as quite a bit more than mild givebacks.

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