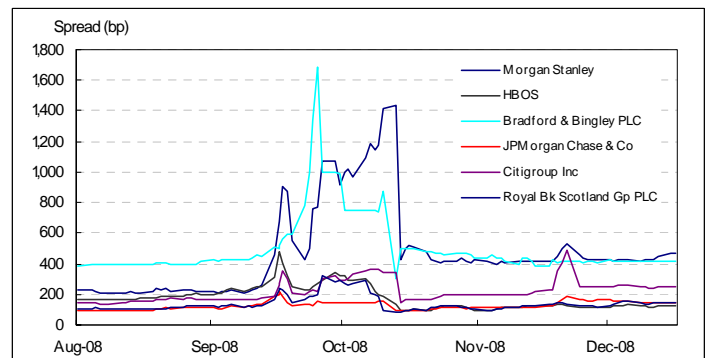
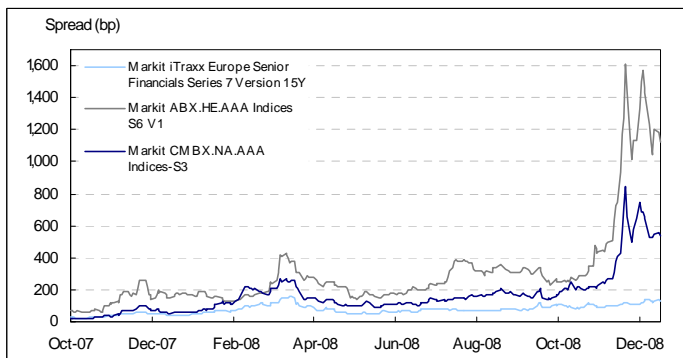


The European ABS Market

A Week in Review: 11 – 18 December 2008

The European ABS market weakened during this past week as European banks tallied losses related to Bernard Madoff's alleged multi-billion dollar fraud. The Markit iTraxx index of European financial credit default swaps widened, as did the Markit ABX and Markit CMBX indices.



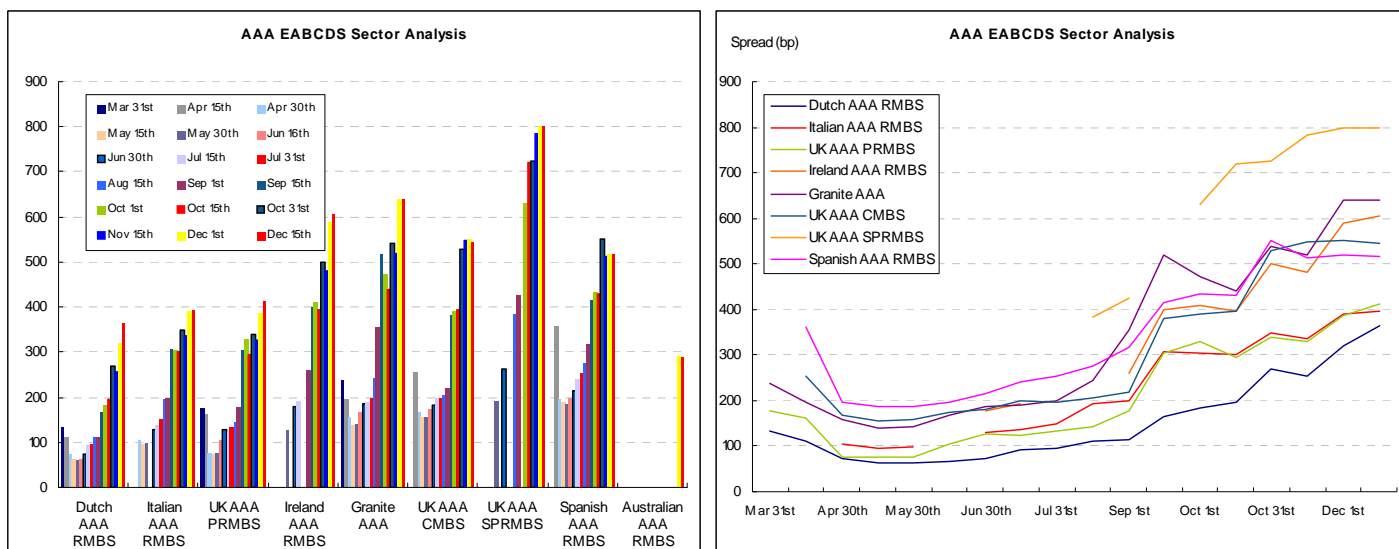
The biggest movers in European ABS were all deteriorators, led by auto ABS, as liquidity dried up with the approach of year end and market participants remained uncertain about the future of the world's automakers.

Top 5 ABS Deteriorators										
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)	
AUTO ABS COMPARTIMENT 2004 1	1	A	EUR	FR0010053868	382	76.40	AAA	Auto Loan	0.6	
SC Germany Auto 06 PLC	6	A	EUR	XS0266760700	361	60.35	AAA	Auto Loan	2.9	
Driver Three GmbH	2266	A	EUR	XS0270108573	336	54.67	AAA	Auto Loan	2.1	
Cars Alliance Fdg PLC 2005 1	2005-1	A	EUR	XS0210128822	353	37.24	AAA	Auto Loan	1.1	
Auto ABS Compartiment 2007 1	2007-1	A	EUR	FR0010413153	350	30.85	AAA	Auto Loan	2.6	

CDS of ABS spreads widened slightly. A strong negative cash-synthetic basis may indicate that a market that has been stabilizing may be ready to rally.

European CDS of ABS										
Deal Name	Series	Class	Currency	Isin	Synthetic Mid Spread (bps)	Markit Cash ABS Mid Spread (bps)	Basis (Synthetic - Cash)	Average Life (yr)	Duration	
GRACECHURCH MORTGAGE FINANCING PLC 20071	2007-1	3A2	EUR	XS0302999064	397	425	-28	3.04	2.78	
Perm Master Issuer plc 2007 1	2007-1	3A	EUR	XS0288090342	485	500	-15	2.94	2.62	
Granite Master Issuer plc	2007-2	3A2	EUR	XS0298974840	640	1565	-925	3.60	2.56	
Holmes Master Issuer PLC 2007 1	2007-1	3A2	EUR	XS0292750253	393	403	-10	2.32	2.10	
Arkle Master Issuer Plc 2006 2	2006-2	3A2	EUR	XS0277508692	378	418	-40	2.15	2.00	
Bankinter 14 Fondo Titul Hipo	14	A2	EUR	ES0313271019	478	465	13	4.79	3.81	
Shield 1 BV	1	A	EUR	XS0238072895	377	371	6	3.09	2.72	
MADRID RBMS III FONDO DE TITULIZACION DE ACTIVOS	III	A2	EUR	ES0359093012	650	800	-150	7.25	4.34	

Among European RMBS, the Dutch RMBS market remained the tightest, although it is currently the sector widening the most. UK SPRMBS and Spanish RMBS are the widest:

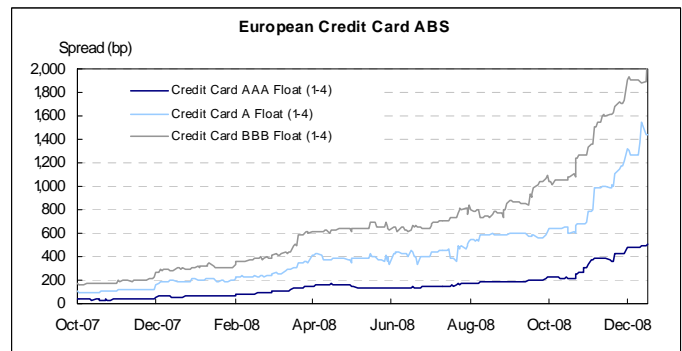
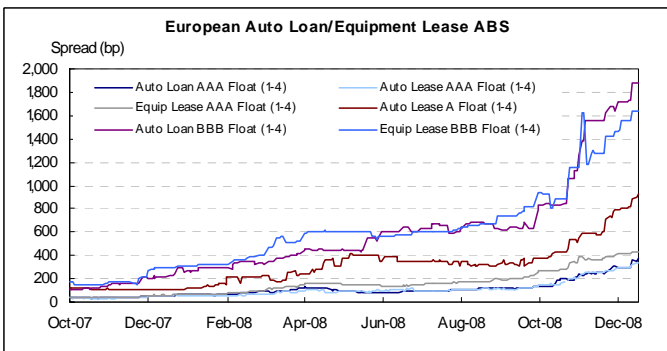
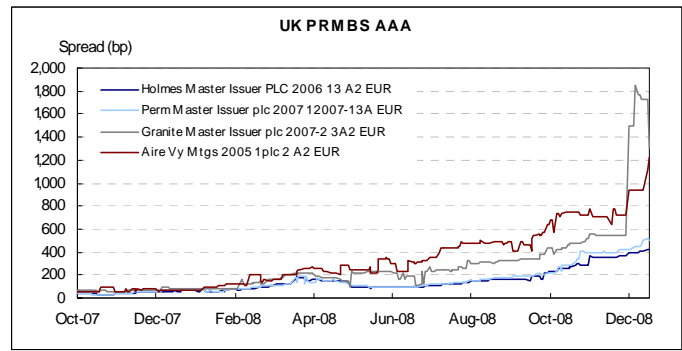
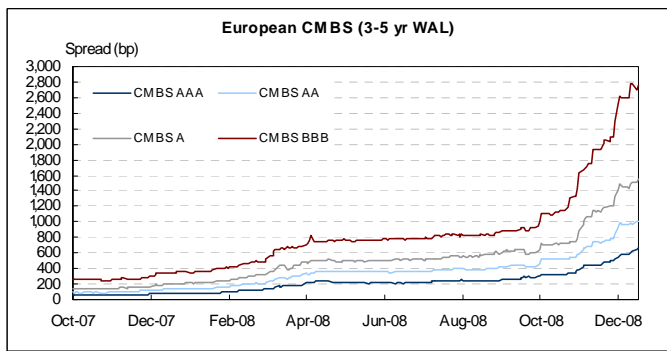
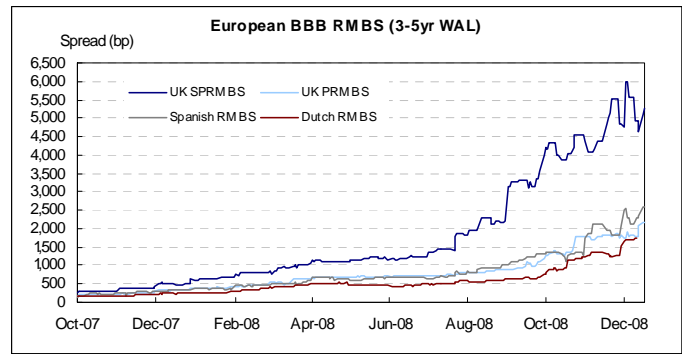
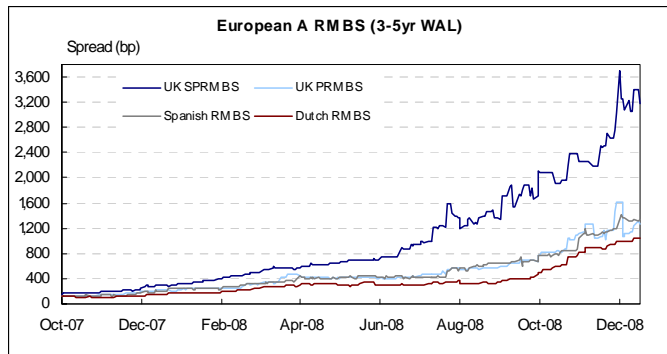
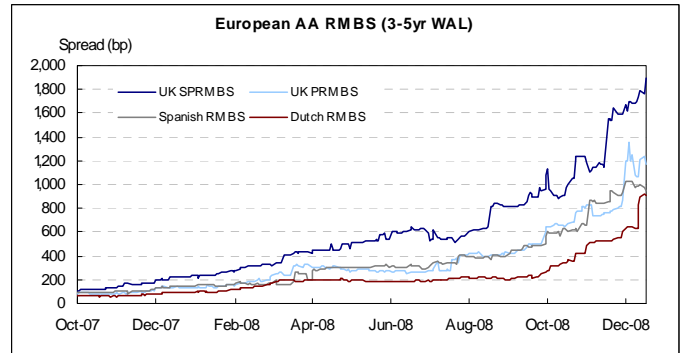
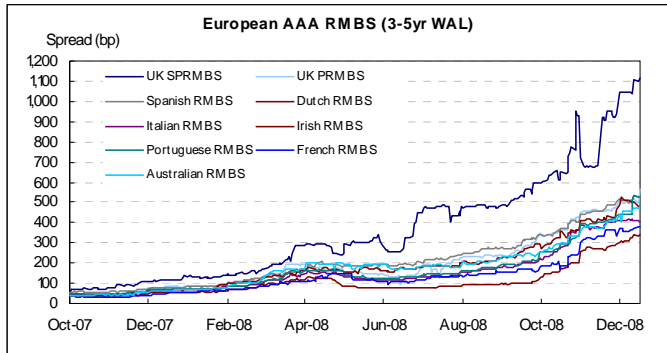


Several new deals were priced in the primary market this week. Many of them were probably retained and used in repo agreements with central banks. The pressure on ABS issuers will continue to grow in 2009 as the repo policies of Europe's central banks will not last forever.

Primary Market					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Aqua Mortgage No 1	Portuguese/RMBS	A	AAA	15	203
		B	n.r.	40	30
		C	n.r.	n.p.	4
Bancaja 13	Spanish/RMBS	A	AAA	30	2,583
		B	A	60	152
		C	BBB	120	159
Boadilla 2008-1	International/CLO	A	AAA	20	1
		B	AAA	150	18
		C	AAA	300	14
		D	BBB	400	15
		E	BB	500	12
		F1	n.r.	n.p.	16
		F2	n.r.	n.p.	4
Colston No 4	UK/RMBS	A	AAA	10	4,455
Dutch Mortgage Portfolio Loans VI	Dutch/RMBS	A	AAA	35	755
		B	n.r.	50	33
ELIDE Compartiment 2008-1	French/RMBS	A	AAA	25	465
		B	AAA	25	465
		C	BBB	50	55
Stichting Orange Lion II	Dutch/RMBS	Senior	AAA	100	8,609
		Sub	n.r.	300	1,714
Stichting Seven Bridges I	Dutch/RMBS	Senior	AAA	90	458
		Sub	n.r.	n.p.	54

Auto ABS remained in the spotlight as the world's auto manufacturers sought government bailouts to compensate for a lack of funding in the medium term.

Poor economic conditions and the property downturn has pushed credit rating agencies to downgrade many deals. UK, Spanish, German and Dutch RMBS all suffered downgrades, as did Russian auto and consumer ABS and credit card ABS (Chester Asset Receivables Dealings).



This situation in the European ABS market during the year ahead will definitely remain interesting as factors such as house price decline, recovery rate, 90 + day delinquencies, mortgage affordability, inflation, asset or non-asset trigger events, and swap counterparty risk cross each other. But with low demand for ABS risk and many securities already trading at distressed levels, will all of these factors matter?

Some BBB ABS bonds are now priced at 5 cents on the dollar and investors expect to receive only interest for a limited period of time. But if a fund bought 20 of these securities from different countries and sectors, and only one repaid fully, then the fund would easily be in the money.

More interesting is the scenario where more than one security repays fully and puts the fund in the money. This could be the case if the monetary and government policies start to have a positive impact on mortgage and consumer lending.

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