

The European ABS Market

A Week in Review: 02 – 12 June 2008

The European ABS market was little changed last week as market participants gathered at the Global ABS conference in Cannes. Investors focused on macroeconomic data, particularly inflation, as trading was muted for May's month end.

As we have noted previously, drastic changes in monetary policy at the Federal Reserve and the Bank of England during the last nine months have put upward pressure on inflation rates. The liquidity crisis still looms with Libor and Euribor largely above central bank rates. Contracting alongside such pressures, the Halifax Housing Index showed a month-on-month decrease of 2.4% and a year-on-year decrease of 3.8%, confirming the Nationwide index measure of two weeks ago.

Our weekly analysis of the market's biggest movers showed signs of weakness as losers outweighed gainers in terms of the magnitude of spread change for the first time in three months.

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
BANCAJ10 10 A2 EUR	BANCAJA 10 Fondo Titul Activos	ES0312872015	207.426	9.8	AAA	RMBS	3.713
MAGFIN4 1 A EUR	MAGRITTE Fin 2004 BV	XS0197191033	107.618	9.13	AAA	RMBS	2.182
NOST31 1 A EUR	NOSTRUM Mtgs 2003 1 PLC	XS0180041278	118.503	9	AAA	RMBS	2.187
VICTFUN-EMC5 EMC-V A GBP	Victoria Fdg EMC V PLC	XS0268989523	205.917	7.18	AAA	CMBS	2.43
SSWT 2006-1E A3 EUR	Ser 2006 1E SWAN Tr	XS0254988529	158.805	5.22	AAA	RMBS	2.64

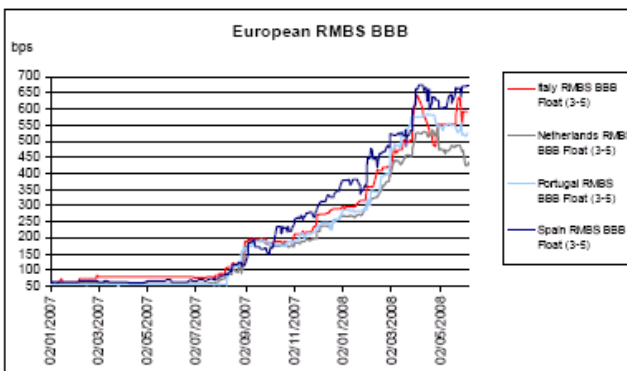
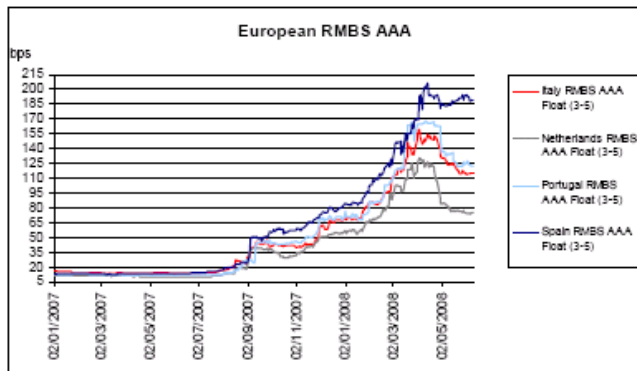
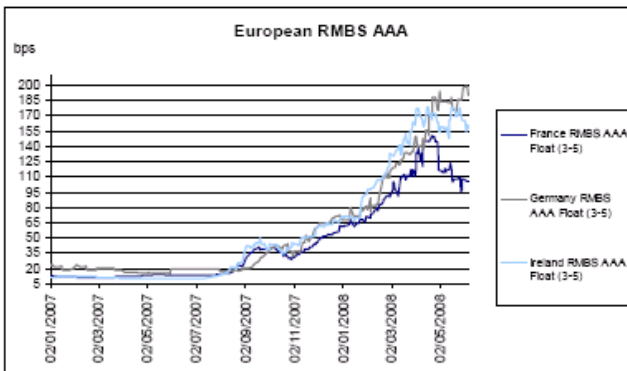
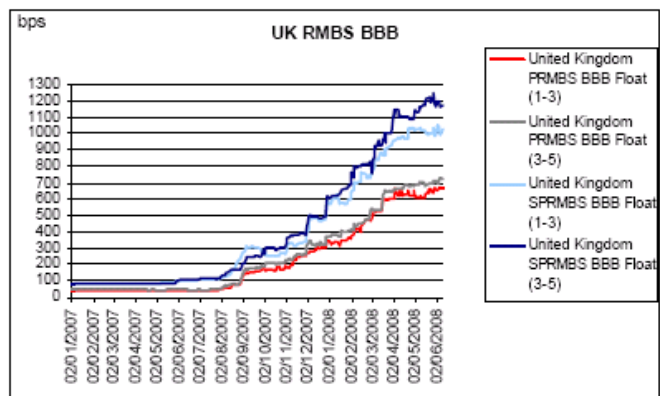
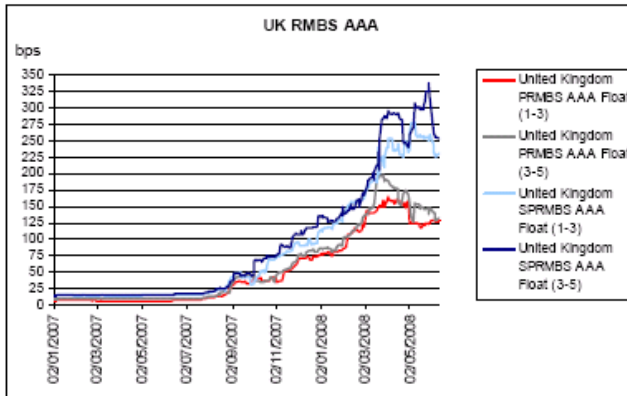
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
DRV5 5 A EUR	Driver Five GmbH	XS0342510618	81.017	-0.88	AAA	Auto Loan	1.781
ATLANTEFIN 1 A EUR	Atlante Fin Srl	IT0004069032	125.111	-0.84	AAA	CMBS	4.383
SIENA2 3 A2 EUR	Siena Mtgs 02 3 SRL	IT0003386270	104.389	-0.69	AAA	RMBS	1.488
SAECURE3 3 A EUR	Saecure 3 Bv	XS0178551825	72.026	-0.09	AAA	RMBS	2.066
BKTSM8 1 A EUR	Bankinter 8	ES0313548002	199.799	-0.07	AAA	RMBS	5.026

CLOs accounted for the majority of the deals priced in the primary market.

Deal	Country/Sector	Class	Av Rating	Spread (bps)	Amount (€ mn)
CELF Partnership Loan Fing CLO	International/CLO	A1	AAA	165	800
		A2A	AAA	150	293
		A2B	AAA	300	33
		Sub			375
Colston No 2 plc	UK/PRMBS	A1	AAA	80	4675
		A2	AAA	83	250
		A3	AAA	85	75
Euro Atlantis CLO Ltd	International/CLO	A	AAA	170	171
		B	AA	325	11
		C	A	450	7
		D	BBB-	650	9
		Sub			42
Jubilee CDO IX BV	International/CLO	A	AAA	125	277
		B	AA	390	32
		C	A	450	9
		E			55

Secondary market volatility remained light despite the month end, as ABS investors focused deeply on ABS issuer financial statements. A clear understanding of an issuer’s financial condition is the key to knowing whether or not a deal will be called when, in general, 10% of the pool is remaining.

Call risk is mainly affecting securities rated below AAA. In terms of pricing at the current market spreads, duration is of key importance, showing securities with longer average lives are typically cheaper. Buyers are assessing these cheaper long-dated bonds for bargains. Investors are focusing to a larger extent on the possibility of investments being called at cleanup.



Central banks are expected to increase main rates to combat the rise in inflation alongside the housing slump. While this would be welcome in the debt capital markets, some would view it as weak monetary policy and allege that central bankers are more concerned about the present than the future.

The Bank of England is feeling the weight of this credibility issue because it cut rates when UK year-on-year housing price growth was still positive and delinquencies and downgrades were limited. A rate hike without further action would help contain inflation but worsen the situation in the UK housing market.

The only solution that has tightened spreads and helped banks finance mortgages on both sides of the Atlantic has been the expansion of repo programs. By increasing the amount of funding available and by expanding it to lower rating levels (AAA/AA), central banks could encourage risk taking, manage the liquidity crisis and use their main rates to fight inflation.

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.