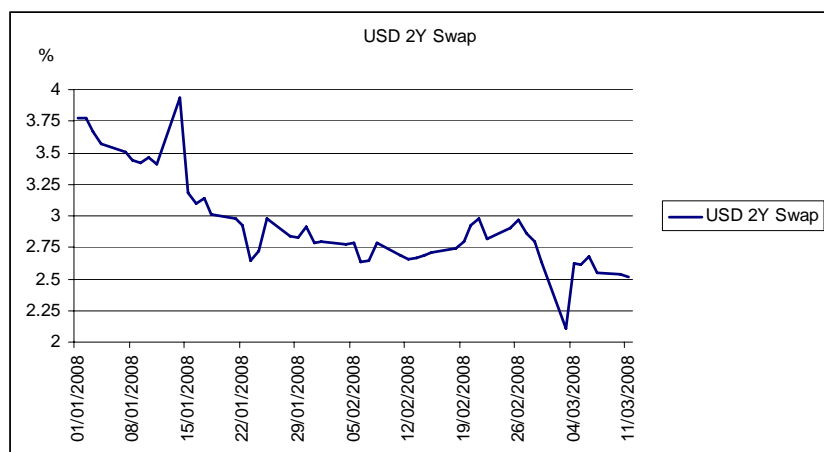


# The European CLO Market

## A Week in Review: 05 – 12 March 2008

The European Central Bank and the Bank of England decided to maintain their interest rates at 4.00% and 5.25 % respectively last week in order to tackle inflation in the Eurozone and in the UK.

These decisions have put pressure on both the US Dollar and the Federal Reserve's policy; the two seemingly uncorrelated for several months. For many, the next move by the Fed could help avoid a recession in the US and expectations are high with many investors hoping for a 75 bps cut.



In Europe, figures from the Halifax index released last week showed that UK house prices fell by 0.3% in February. Prices in the three months to February were 0.2% higher than in the previous quarter. This news of house price declines is directly affecting specific securities such as Permanent and Granite via their single name ABCDS which show a positive basis to their associated cash ABS spreads.

Unsurprisingly, our Top 5 deteriorators this week comprise Granite securities:

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMORT04-2 2 A1 EUR	Granite Mtgs 04 2 Plc	XS0193212825	192.381	33.87	AAA	PRMBS	1.216
GRANMAST05-1 2005-1 A5 EUR	Granite Master Issuer plc 2005 1	XS0210929161	183.282	15.43	AAA	PRMBS	1.425
GRANMAST05-4 2005-4 M4 EUR	Granite Master Issuer plc 2005 4	XS0229615272	411.662	14.07	A	PRMBS	2.451
GRANMAST06-1 2006-1 A6 EUR	Granite Master Issuer plc 2006 1	XS0240602929	186.519	13.74	AAA	PRMBS	2.879
GRANMORT04-2 2 A2 GBP	Granite Mtgs 04 2 Plc	XS0193213807	173.09	9.99	AAA	PRMBS	1.208

Two new issues came to the primary market this week. As expected, Langton Securities was retained while Eurocredit Opportunities Parallel Funding was a public deal:

Deal	Class	Rating	Spread (bps)	Amount (€ mn)	Sector
Langton Securities 2008-2	A1	AAA	45	735	UK PRMBS
	A2	AAA	45	1,274	UK PRMBS
	A3	AAA	45	196	UK PRMBS
	A4	AAA	45	196	UK PRMBS
	Z		150	230	UK PRMBS
Eurocredit Opportunities Parallel Funding	A	AAA	145	313	CLO (Leverage)
	B	AA	250	10	CLO (Leverage)
	C	A	350	8	CLO (Leverage)
	D	BBB (-)	800	40	CLO (Leverage)
	E			80	CLO (Leverage)

Eurocredit CLO was priced in line with the current levels we are seeing in the secondary markets.

Despite widening, the CLO market remains fairly stable with SPVs continuing to issue these securities. In fact, the CLO industry, along with Dutch RMBS, has been the most active in the primary markets over the last six months.

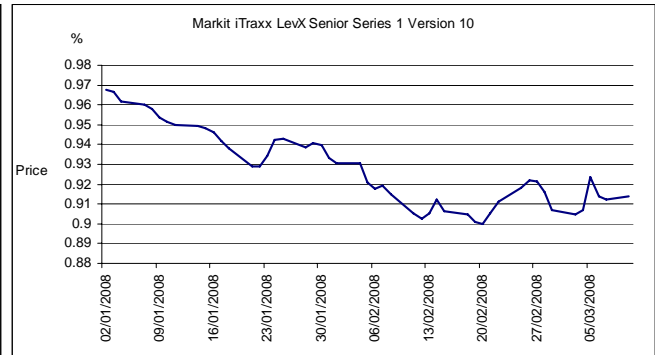
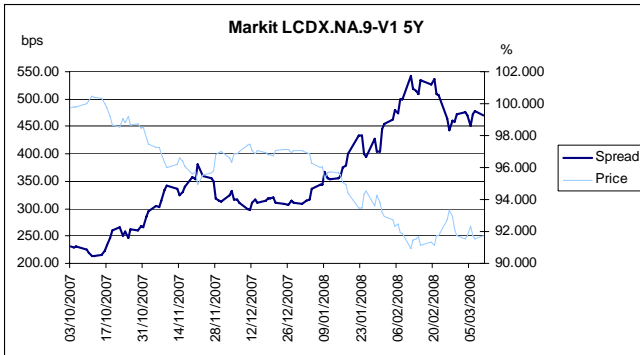
Six CLOs were priced in December 2007.

Deal Name	Issue Date
Ares European CLO II B.V.	11-Dec-07
Harbourmaster CLO 10 B.V.	06-Dec-07
Neptuno CLO III B.V.	05-Dec-07
SPQR II S.r.l.	06-Dec-07
Eurocredit CDO VIII Limited	04-Dec-07
St. James's Park CDO B.V.	05-Dec-07

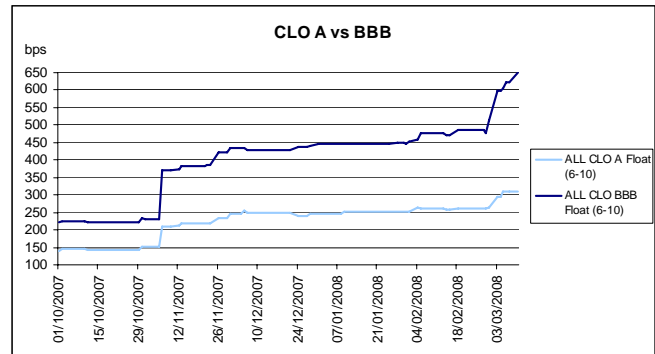
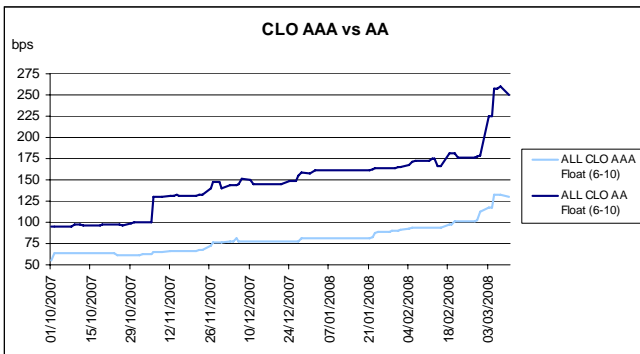
Margins for all tranches since the beginning of December have doubled if compared to new issue levels:

Deal	Class	Spread (bps)	Amount (€ mn)	Rating
EUROCREDIT CDO VIII LTD	A	57	432.3	AAA
	B	135	47.7	AA
	C	200	42	A
	D	325	29	BBB
	E	475	24.5	BB
			60.5	

At the beginning of this year, both the Markit LCDX and Markit LevX indices began to deteriorate:



However, both indices have recently seen their spreads widen dramatically which impacts CLOs and the levels at which they trade. This spread widening reflects the current risk aversion to securitised products.



Despite the recent tensions in the CLO sector, we nevertheless saw an improvement last week. The practice of ratings agencies analysing industry concentration levels should be seen by investors as a solid safeguard in conjunction with the existing credit enhancement on these deals. This should inspire greater confidence among traditional European CDO/CLO investors about the performance of these assets.

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