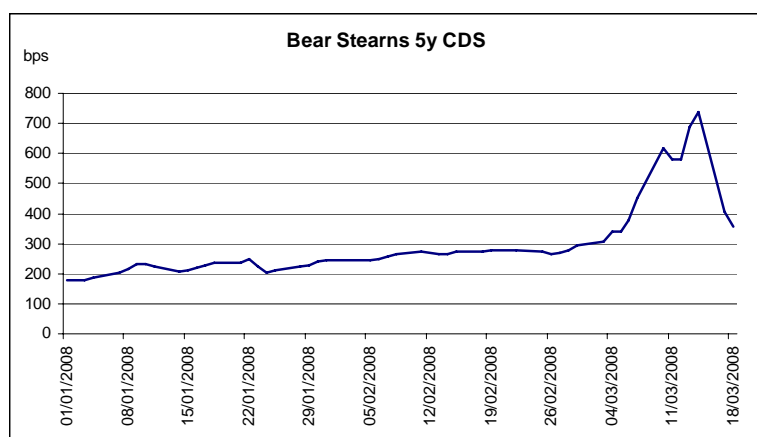


The UK RMBS Market

A Week in Review: 12 – 19 March 2008

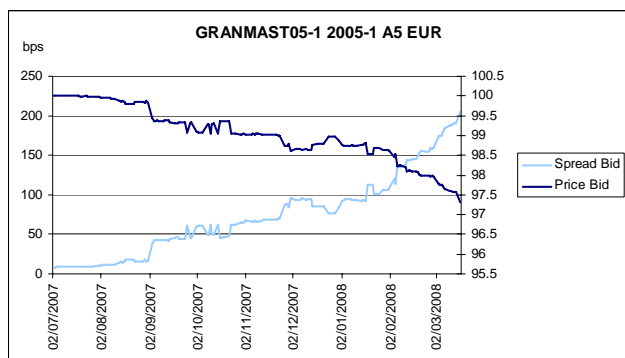
The markets are still digesting the news that JPMorgan bought Bears Stearns at such a big discount. The Fed's move to guarantee Bear Stearns' liabilities helped secure a private sector deal. This contrasts with the outcome of the Northern Rock saga.



The newly nationalised Northern Rock is triggering criticisms from alternate dealer banks and concerns are being raised over the state guarantee providing Northern Rock with an unfair advantage. With regards to any European mortgages to come through the Northern Rock pipeline, the bank will soon have to answer to the European Commission. Combined with the release of a gloomy 2008 budget in the UK, the news has stressed the secondary market even more. The suggested government sponsorship of high quality mortgages and the Bank of England injecting more liquidity in the markets does not seem to be enough to alleviate investor concerns.

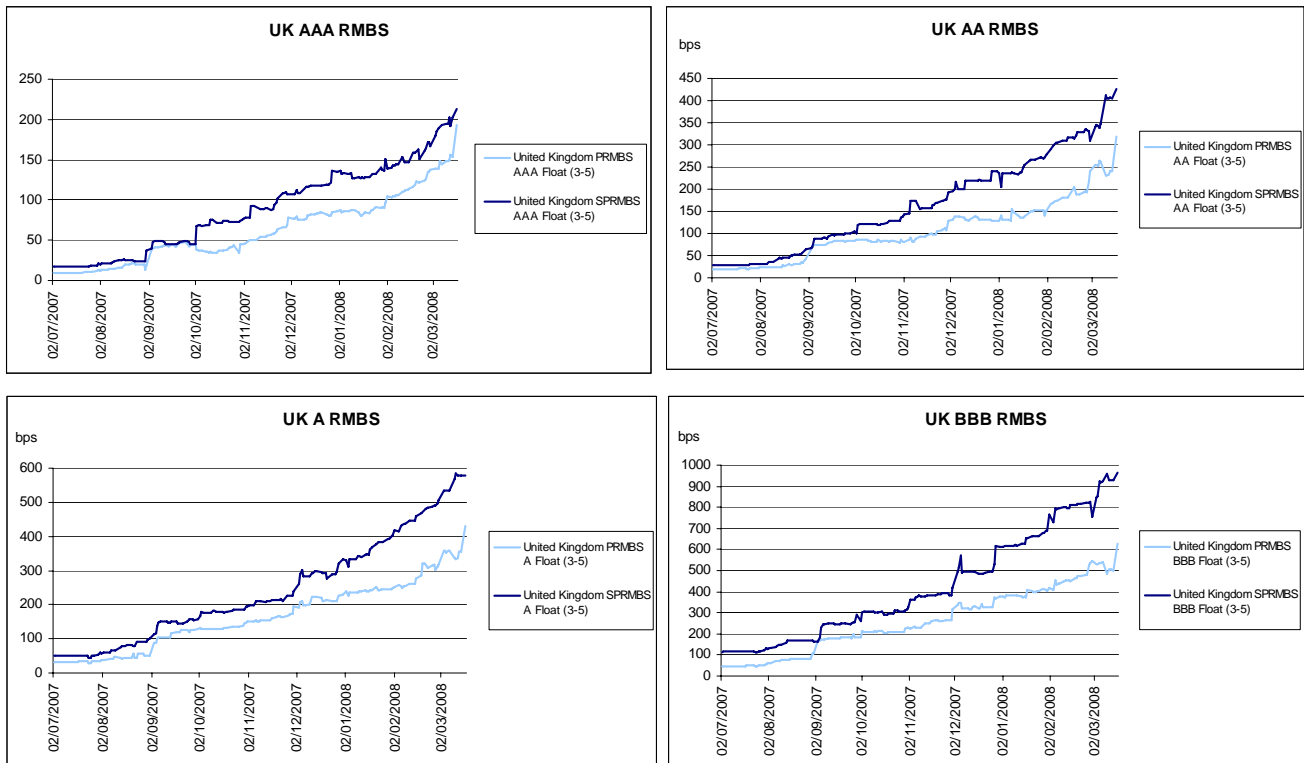
As expected, there are no improvers again this week and we are mainly focusing on Granite which maintains spreads wider than 200 bps for cash "Prime" Securities:

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
UCI14 14 A EUR	Fondo de Titul de Activos Uci 14	ES0338341003	225.546	63.1	AAA	RMBS	3.864
GRANMAST05-1 2005-1 A5 EUR	Granite Master Issuer plc 2005 1	XS0210929161	200.909	17.63	AAA	PRMBS	1.437
GRANMORT04-3 3 A1 GBP (2)	Granite Mtgs 04 3 Plc	XS0201486320	198.57	14.84	AAA	PRMBS	2.969
GRANMAST06-2 2006-2 A5 EUR	Granite Master Issuer plc 2006 2	XS0252421499	193.83	12.86	AAA	PRMBS	3.208
GRANMAST06-1 2006-1 A6 EUR	Granite Master Issuer plc 2006 1	XS0240602929	199.181	12.66	AAA	PRMBS	2.861



There was however one positive piece of news for the markets as the Fed announced the creation of a lending facility to improve the ability of primary dealers to provide financing to participants in securitisation markets. The Fed, which is lending more and more liquidity facilities and investment grade ABS, can thus be used as counterparty. It appears that investors are borrowing not to relax the credit crisis, but to invest in commodities, equities, and other non-Asset Backed Securities.

Concerning dollar investors, it is also important to recognise that the AAA Granite bonds issued in US dollar are now over 300 bps; a situation once again driven by the current UK synthetic market. Within the below sector curves, it is interesting to see that the AAA levels are widening and converging while the more subordinated tranches, the most exposed to the risk, are diverging:



On the other hand, last week saw some improvements. First, the UK Sub Prime market was spurred on by good news from Fitch's decision to upgrade the majority of the Subordinated Tranches for Leek Finance (11 to 16). Secondly, we saw signs of improvements in the primary market with six new deals priced last week including two CLOs. Unfortunately, almost all of them were retained or privately placed:

Deal	Country/Sector	Class	av Rating	Spread (bps)	Amount (€mn)
Bankinter 16	Spain/RMBS	A	AAA	30	1,882
		B	AA	40	46
		C	BBB	50	38
		D	BB	250	34
		E	CCC	390	43
Bumper 2	Germany/Auto Lease	A	AAA	60	664
		B	AA	120	75
		C		160	138
Globaldrive Auto 2008-A	Germany/Auto Loan	A	AAA	465	100
		B	AA	20	200
		C	BBB	7	
		D		8.6	
TDA 30	Spain/RMBS	A	AAA	364	30
		B	A	9	75
		C	BBB	7	150
		D	C	8.2	350
ECF Financing	International/CLO	A	AAA	115	127
		Sub			60
Base CLO	International/CLO	A1	AAA	60	267
		A2	AAA	100	9
		B	AA	150	33
		C	A	200	12
		D	BBB	300	12
		E	BB	500	14
		Sub			28

The macroeconomic situation in the U.S., which has made the Fed decrease its main rate by 75bps twice since January, could potentially lead to continued inflation throughout 2008. This has and will continue to make U.S. inflation indexed bonds very attractive.

Now unstable and uncorrelated to Europe, the U.S. economy should not be used as a benchmark until better conditions emerge within the housing market. Perhaps levels on U.S. AAA securities should stop influencing the way European ABS investors are seeing their own market. By becoming more independent and less adverse to a market that could hold an unforeseen low level of risk, European investors could potentially hold the key to solving the current global credit crisis.

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