

The European ABS Market

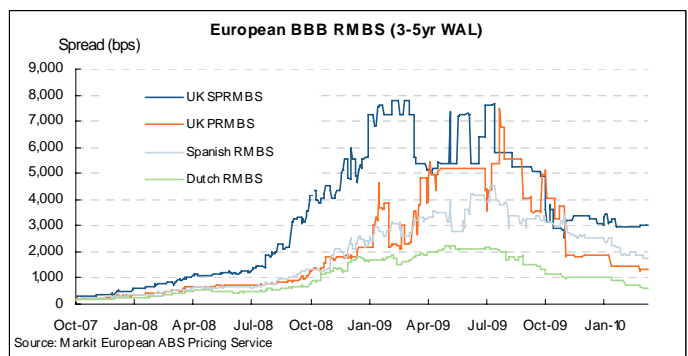
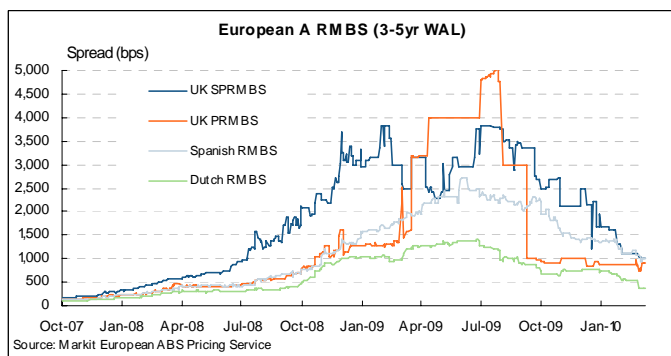
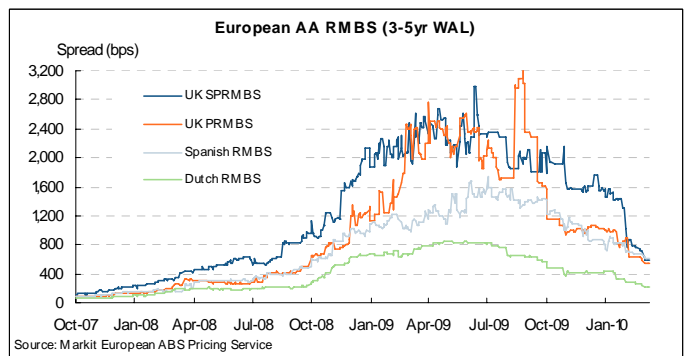
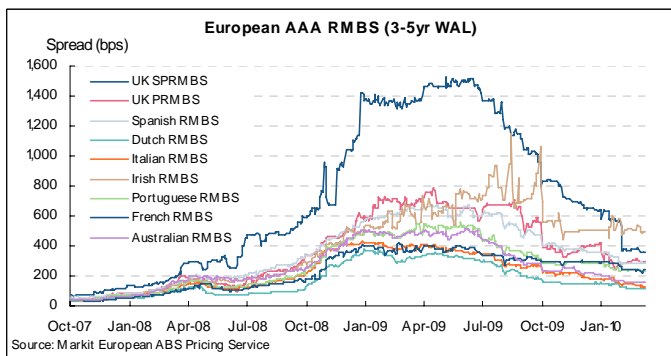
A Week in Review: 25 February – 11 March 2010

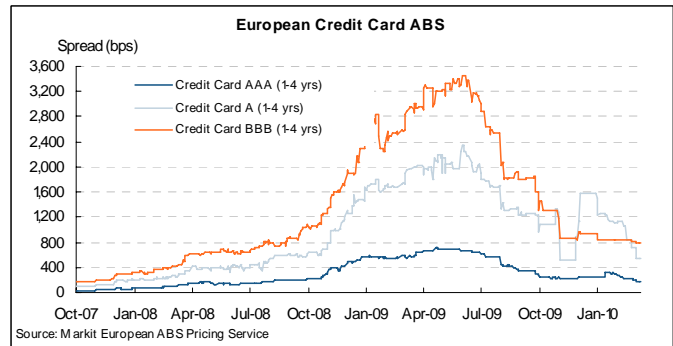
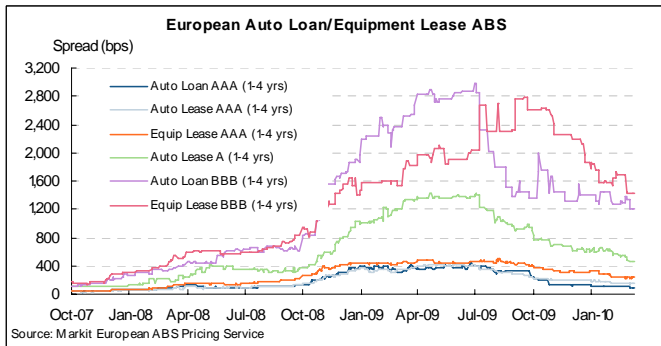
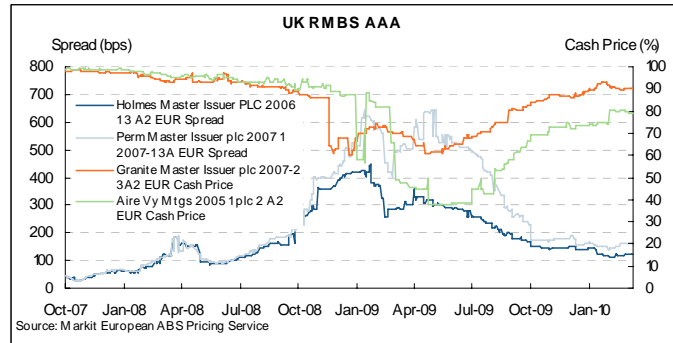
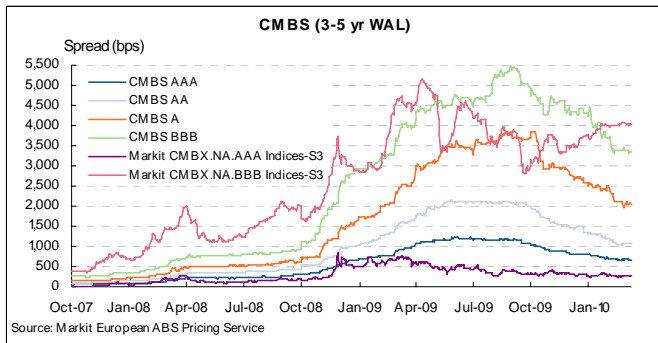
European ABS Pricing and Sectors

March started very quietly on the European ABS secondary market. Globally spreads have been tightening slightly and most cash prices have been improving. For example Granite AAA, AA, A and BBB which two weeks ago traded at respectively 90, 70, 60 and 37 are now traded at 91.5, 72, 63 and 38.

Greater volatility but more improvement has been seen in sectors such as CMBS and UK non-conforming RMBS. The credit card market was also positively impacted when MBNA Europe announced it will increase the support to both of its UK Credit Card Trust, Cards I and II which will add 20.9% to the original credit enhancement. The direct effect of such announcement was a substantial price increase regarding the existing securities of these trusts.

One more deal was publicly priced this week: Fosse Master Issuer 2010-1. The senior tranches of Fosse were successfully placed as the spreads tightened right after issuance from 120 to 116 basis points.





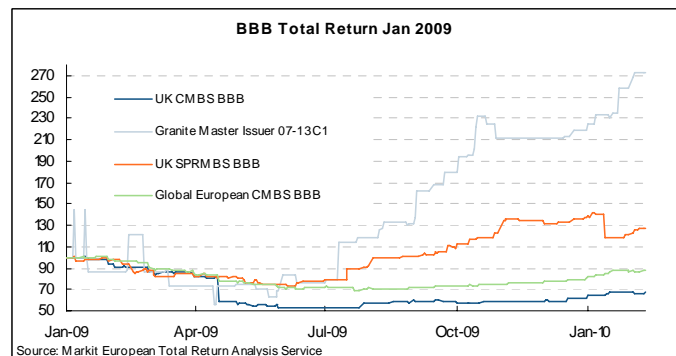
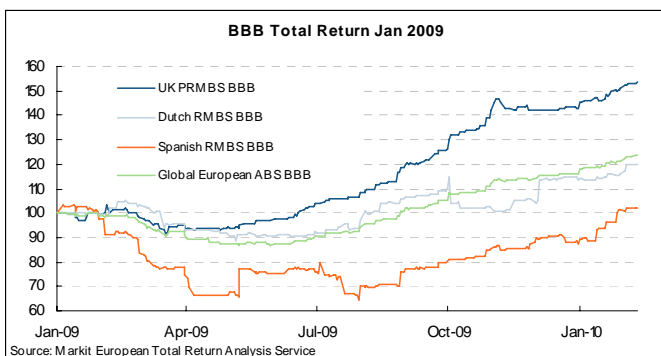
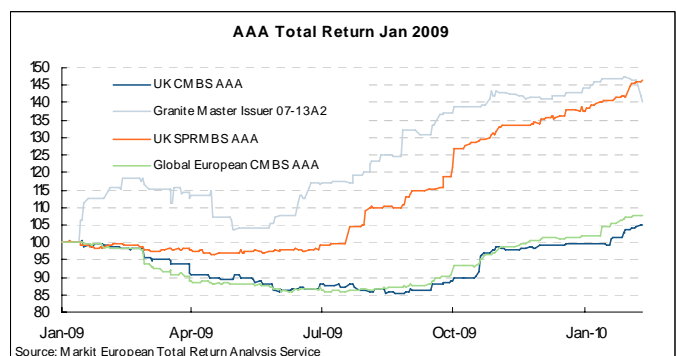
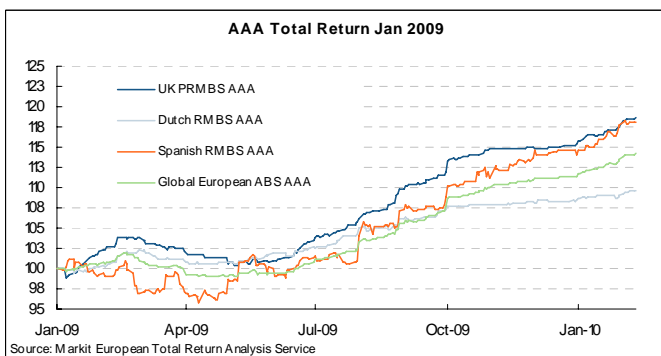
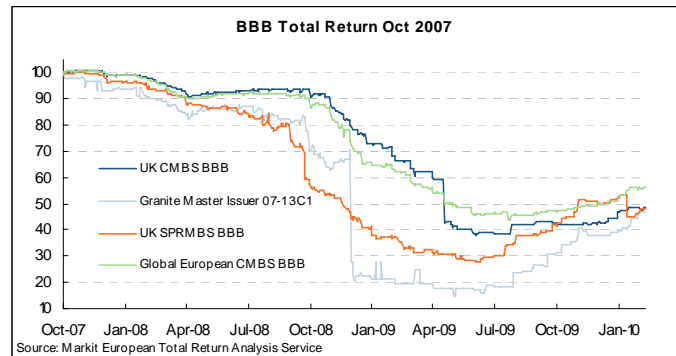
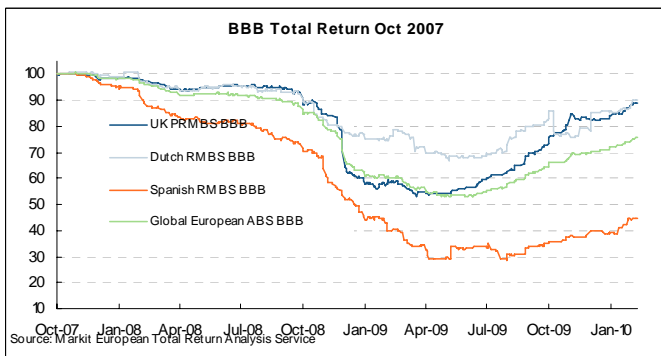
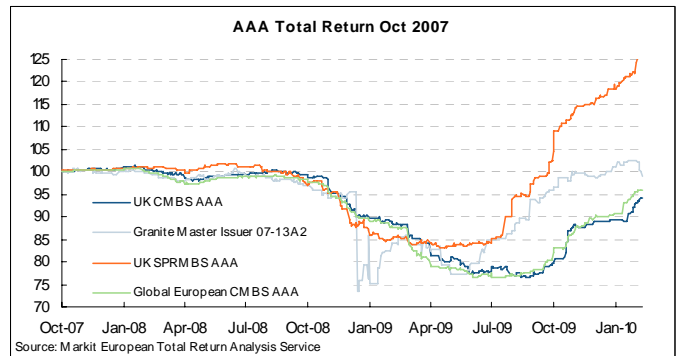
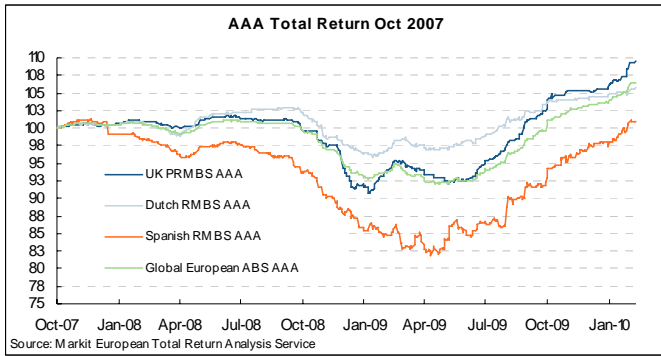
Top 5 Price Movers

Both deteriorators and improvers are present in this week Top 5 showing mixed feelings on the market.

Top 5										
ABS Improvers (Source: Markit European ABS Pricing Service)										
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)	
Chester Asset Recs Dgs 2001 B PLC	UK2001	C	GBP	XS0140073429	863	-2477.33	BBB	Credit Card	1.8	
Chester Asset Recs Dgs 2001 B PLC	UK2001	A	GBP	XS0140072025	192	-107.50	AAA	Credit Card	1.8	
Chester Asset Recs Dgs Issuer Ltd	2004-A1	A	GBP	XS0197427924	181	-75.00	AAA	Credit Card	1.4	
Chester Asset Recs Dgs 2004 1 PLC	UK2004	A	GBP	XS0188611783	178	-70.00	AAA	Credit Card	3.9	
Gracechurch Card Fdg No 10 PLC	05-1	A1	EUR	XS0232360445	137	-18.68	AAA	Credit Card	0.6	
ABS Deteriorators (Source: Markit)										
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)	
TDA 18 MIXTO Fondo de Titul de Activos	18	A1	EUR	ES0377989001	231	30.94	AAA	RMBS	4.7	
Celtic Residential Irish Mtg Secn No 12 Ltd	12	A2	EUR	XS0305170242	291	20.00	AAA	RMBS	1.0	
Italfinance Secn Veh 2 Srl	2007-1	A	EUR	IT0004197254	197	16.47	AAA	Equip Lease	2.8	
Lusitano Mtgs No 3 plc	1	A	EUR	XS0206050147	231	4.70	AAA	RMBS	5.7	
Lothian Mtgs No3 PLC	3	A2	GBP	XS0194864517	118	4.22	AAA	RMBS	1.2	

European Total Return

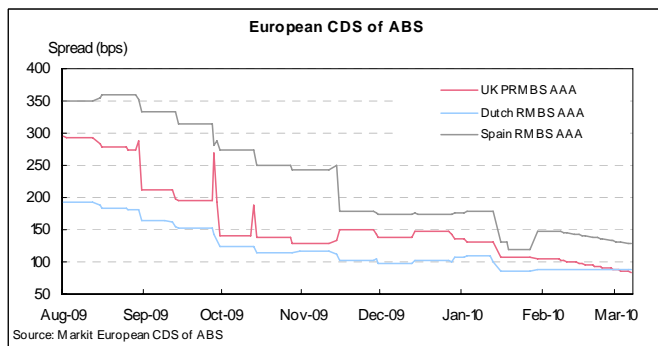
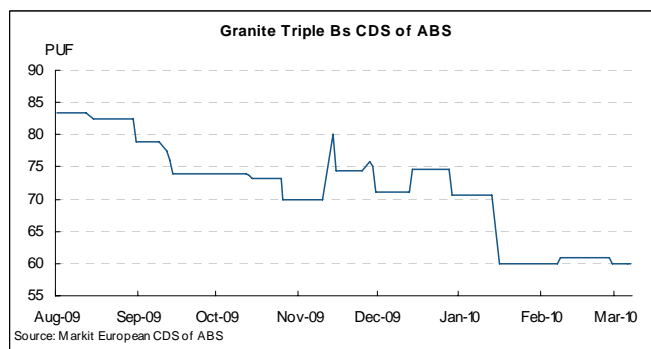
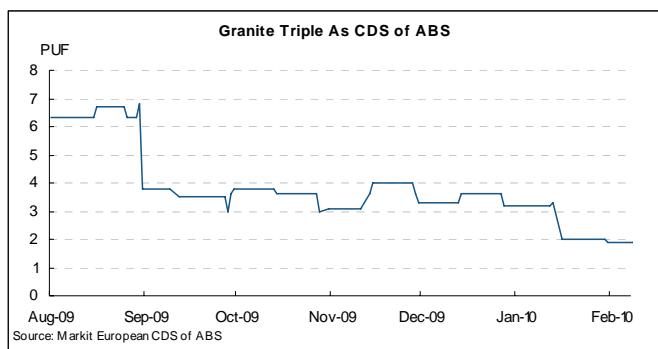
No major movements have been seen in our total return curves.



European CDS of ABS

As with prior weeks, the ABS synthetic market remains stable with no major trades reported. CDS of ABS on UK Prime RMBS remain tighter by 30 basis points.

European CDS of ABS AAA (Source: Markit European CDS of ABS Service)								
Deal Name	Series	Class	Currency	Isin	Levels (23Feb10)	Levels (10Mar10)	Cash Levels	Basis
Arkle Master Issuer plc Series 2006-2	2006-2	3A2	EUR	XS0277508692	65	65	105	-40
Delphinus 2006-I B.V.	2006-1	A	EUR	XS0256323972	75	75	110	-35
Permanent Master Issuer plc Series 2007-1	2007-1	3A	EUR	XS0288090342	100	100	130	-30
Gracechurch Mortgage Financing plc 2007-1	2007-1	3A2	EUR	XS0302999064	85	85	110	-25
Holmes Master Issuer PLC Series 2007-1	2007-1	3A2	EUR	XS0292750253	60	60	100	-40
Granite Master Issuer plc Series 2007-2 Notes	2007-2	3A2	EUR	XS0298974840	2 (%) + 50dm	2 (%) + 50dm	90.5	-6.5(%)
Bankinter 14, Fondo de Titulizacion Hipotecaria	14	A2	EUR	ES0313271019	160	160	220	-60



Primary Market and Rating Actions

As mentioned one new transaction was publicly priced: Fosse Master Issuer 2010-1

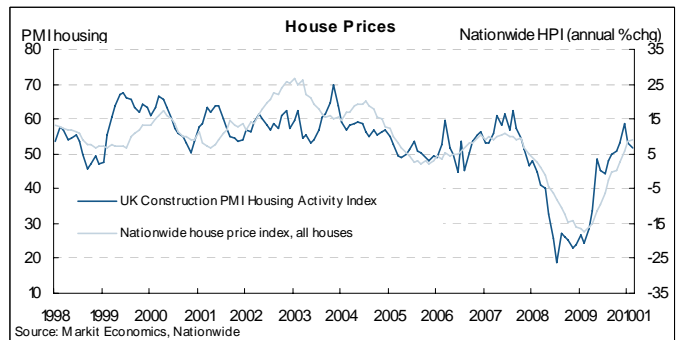
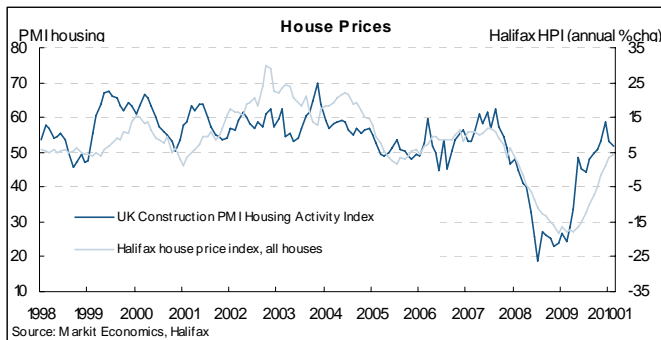
Primary Market (Source: Markit European ABS Performance)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Foncaixa Andalucia FT Empresas 1	Spanish/SME CLO	As	AAA	50	82
		Ag	AAA	30	328
		B	AA	125	25
		C	A	175	65
Fosse Master Issuer 2010-1	UK/PRMBS	A1	AAA	120	205
		A2	AAA	120	775
		A3	AAA	n.a	525
		Z	n.a	90	389

The total number of rating actions is very low compared to previous weeks.

Deals Affected by Rating Actions (Source: Markit European ABS Performance)		
Deal	Country/Sector	Action
Cosmo Finance 2007-1, 2008-1	German/SME CLO	Downgraded
Ludgate Funding Series 2006, 2007-1, 2008-1	UK/SPRMBS	Downgraded
Consumo Bancaja 1	Spanish/ABS	Downgraded
Atlante Finance	Italian/RMBS	Downgraded
Pan European Indus Properties Series III	UK/CMBS	Upgraded
Ursus 2	UK/CMBS	Downgraded

Economics Data

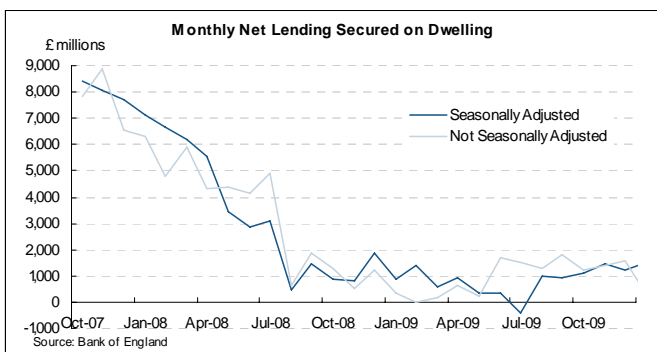
Interestingly, the most significant bad news came from the housing market. At the beginning of February, Nationwide was predicting a return to a double digit year-on-year growth for February. But this did not turn out to be the case as the month-on-month growth decreased by 1% driving the year-on-year Housing Index to 9.2%.



A similar move was seen on the Halifax Housing Index since the month-on-month growth went down by 1.5% pushing the year-on-year index to 4.5% thereby increasing the existing gap between the two housing indices.

These two decreases have happened while the Bank of England (BoE) has kept its bank rate on hold and many are now wondering how the future predicted interest rate increase will affect the housing market and the delinquencies.

The drop in house prices can be explained by the fact that monthly levels of lending secured on dwellings, as reported by the BoE, were at their lowest point for almost a year: £307 million for non-seasonally adjusted and £1,529 million on a seasonally adjusted basis.

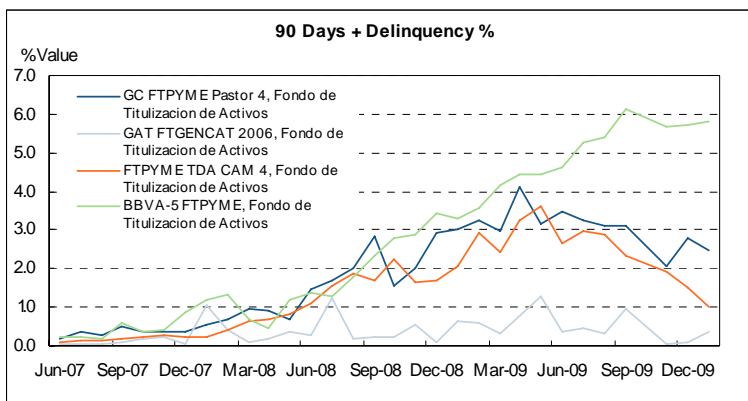


On the other hand the Markit construction index remains stable at 48.5. This stability is mainly driven by the Housing Activity at 51.8 and the Commercial Activity at 48. As such, The stability seen Markit’s Housing index may make the decrease experienced on the Nationwide and Halifax indices less important and could be seen as a one off.

ABS Performance Highlight: Spanish SME CLO

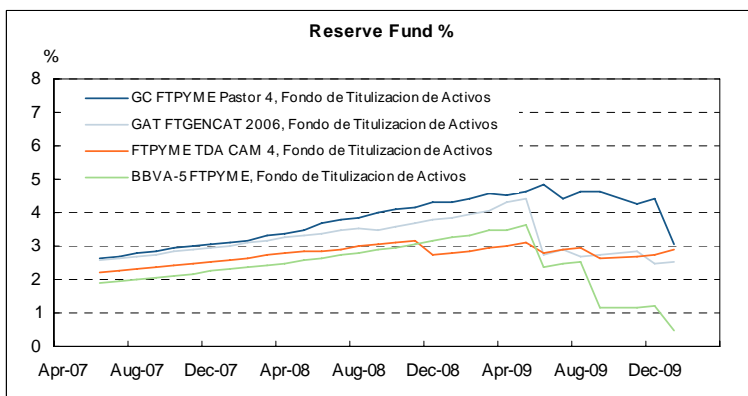
With the country still being kept on negative outlook by the rating agencies, the collapse of the construction sector has completely stalled the Spanish economy. Though the news has focused on trouble in Greece, and to an extent Portugal and Ireland, the fourth biggest economy in euro zone has a contracting economy, with a 3.7% drop last year and a further contraction expected this year and unemployment expected to rise above 22%.

The RMBS sector in Spain has seen delinquencies increase significantly, with losses mounting and credit support being eroded. We look at the prevailing effect on the SME sector about a year since our last update. We look at the same SME deals issued towards the end of 2006.



Since our last update there has been an upward trend for the BBVA deal where delinquencies 90+ days have climbed to just under 6.0%. TDA and GAT deals had a delinquency peak around April 2008 and have since dropped, with the TDA deal just over 1.0% and GC FTPYME at around 2.5%. The GAT FTGENCAT deal, which benefits from a State of Catalonia Guarantee for one of the AAA tranches, has had a flat delinquency trend below the 1.0% mark with the current value at 0.38%.

The delinquencies trend has been widely seen across the sector with many deals peaking towards the middle and end of last year and having dropped off since. However, this does not always show the whole picture and we need to look at the credit support available for each deal.



We can see from the available reserve fund percentage the BBVA deal which has seen rising delinquencies also has decreasing reserve fund availability with this falling to 0.47%.

The other deals still have a good level of support from the reserve fund, with them all having an available balance above 2.0% of the outstanding collateral balance.

In general, we see that the sector can be broken down into different areas, in particular those with a sovereign guarantee have a better performing asset pool than others. There are also a pocket of deals which are starting to erode their reserve funds and credit support is narrowing. These are all monitored on a deal by deal basis.

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