

The European ABS Market

27 October 2011 – 25 November 2011

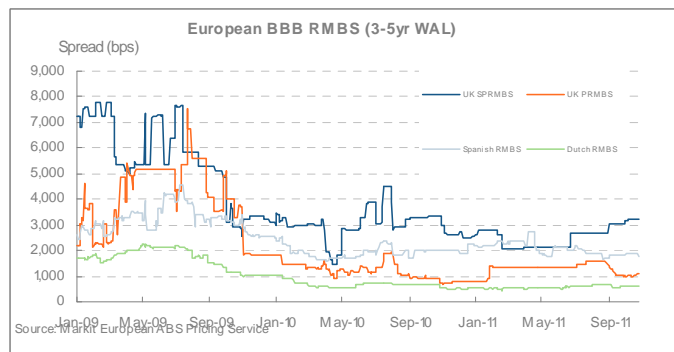
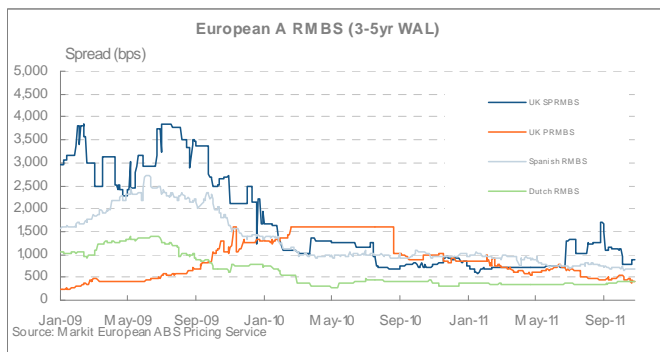
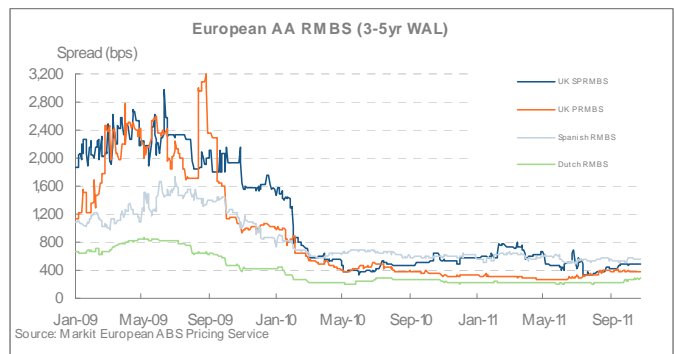
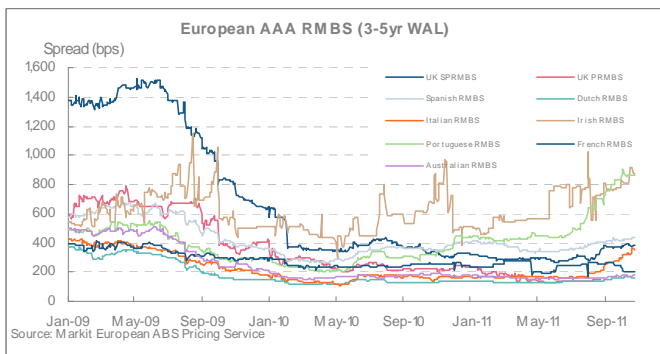
European ABS Pricing and Sectors

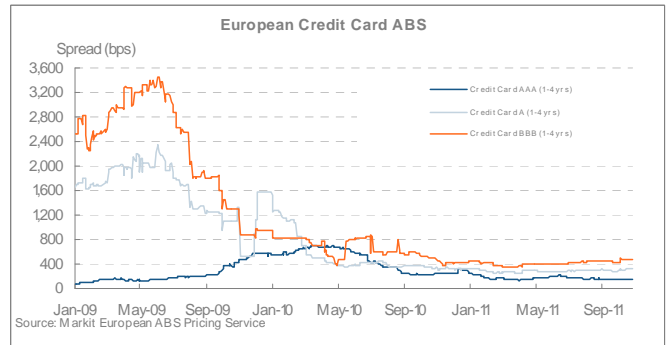
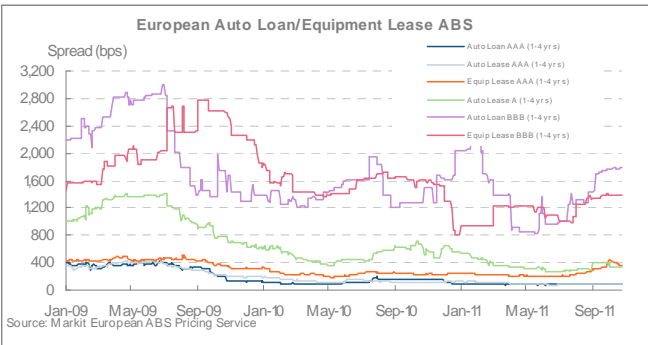
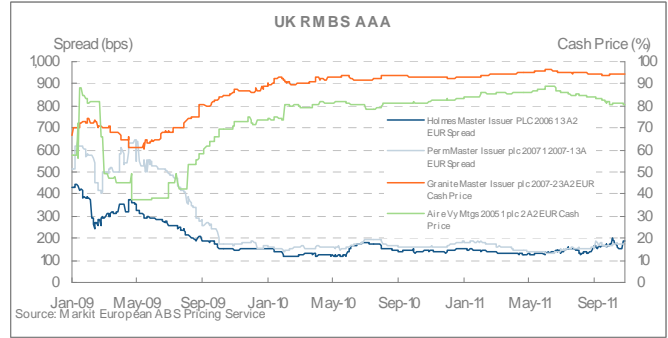
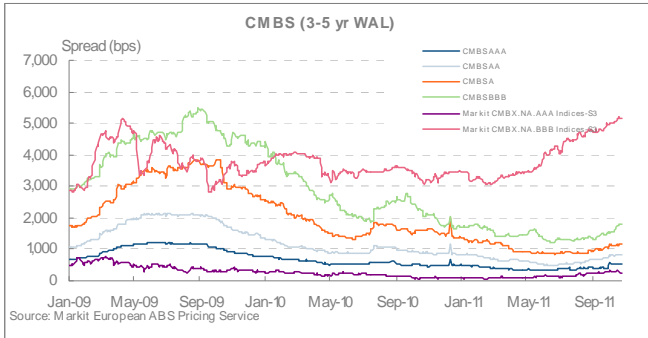
With most credit investors expecting the worst in Europe and with sovereign spreads going through the roof it seems that ABS securities, senior in particular, continue to be a safe haven of relative stability. Senior UK Prime RMBS and Dutch RMBS as well as Autos have suffered only a few basis points widening since the flash rally at the end of October.

Most asset swap spreads of European countries, financial institutions, covered bonds and auto manufacturers are now traded wider than senior short-dated ABS. The primary and secondary securitisation market is again becoming an interesting and efficient way of funding at this cost for issuers and a more secure investment for credit investors.

The situation is likely to persist given the lack of a significant change of stance by the ECB, which continues to resist growing pressure from the some of the peripheral sovereigns to play a more active role in calming the markets.

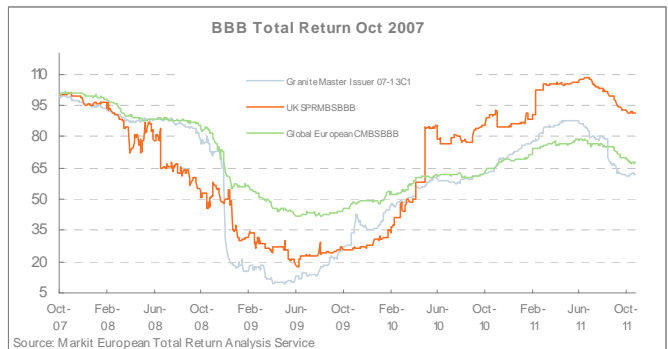
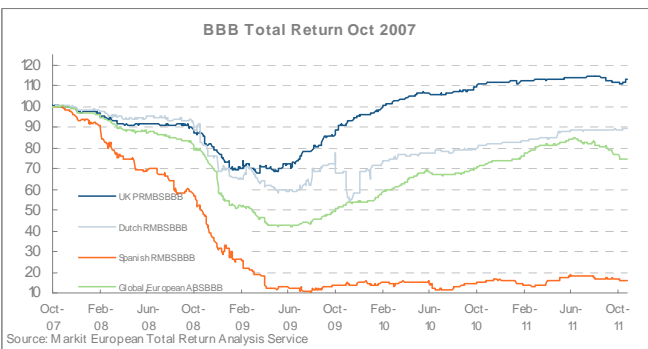
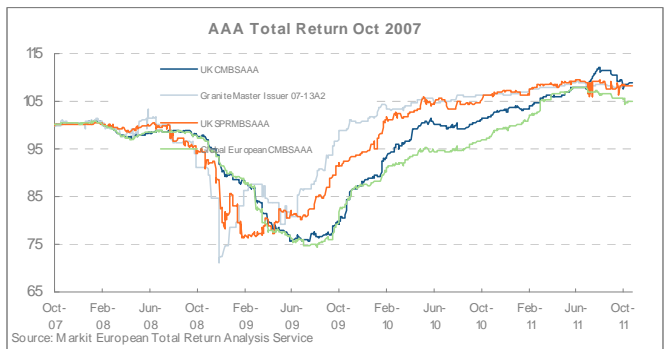
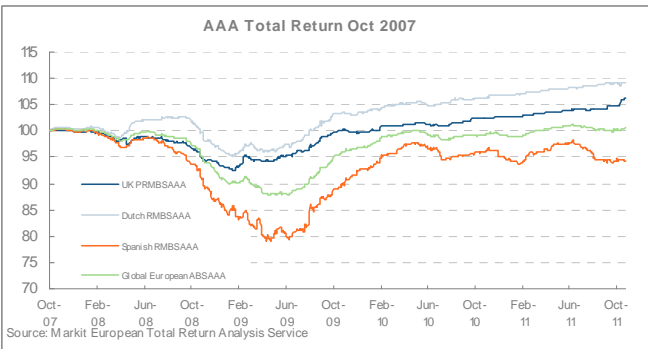
Granite, the ABS market's barometer is a good indication of this stability. At time of going to press the AAA tranches are seeing bids as high as 95.4 (down almost 0.5 points compared to last month), AA tranches are at 80.750 (down 0.75 points), single A tranches are at 70.75 (+1 point) and BBB tranches remain constant at 48.

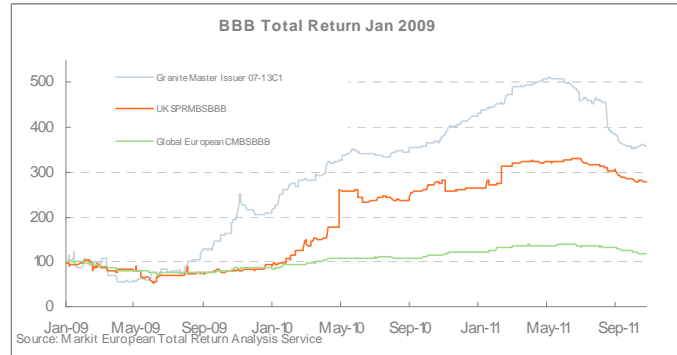
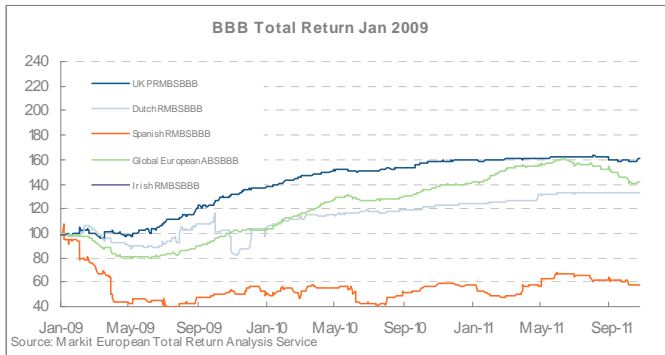
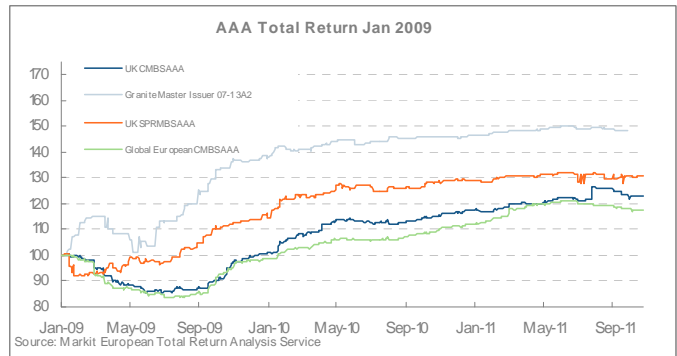
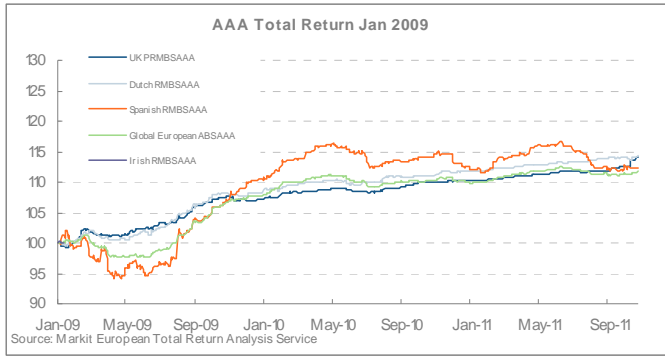




European Total Return

Unsurprisingly the Markit return curves are decreasing driven mainly by price factor, but this decrease is not as bad as might have expected in October.

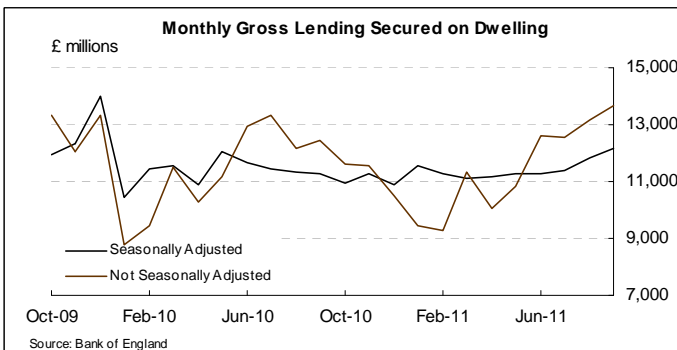
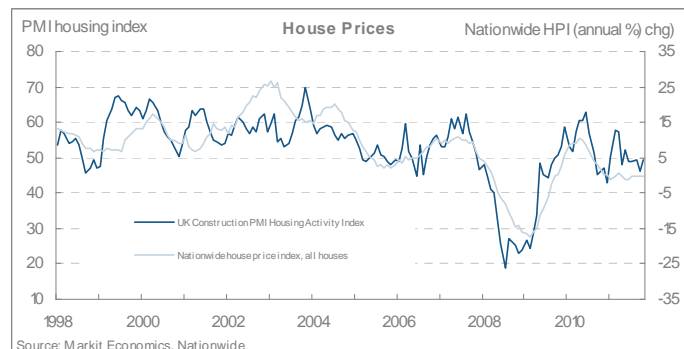
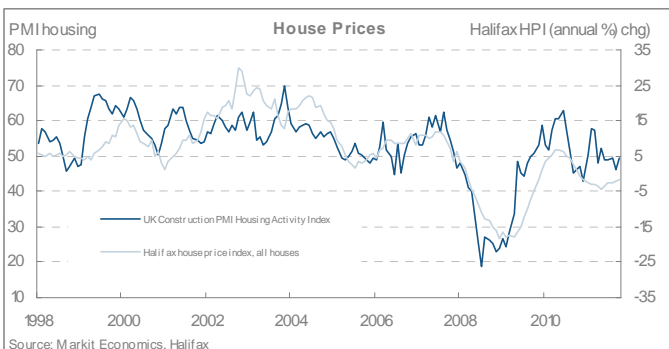




Economics Data

The UK housing market continued to trend sideways with a slight downward slant. The Halifax House Price index showed an important price increase of 1.2 per cent in October, while Nationwide's index increased slightly by 0.4 per cent. The Halifax index showed a 1.8 per cent drop year-on-year compared to Nationwide which reported a 0.8 per cent increase.

The Markit/CIPS UK Construction PMI posted 53.9 in October, signalling some improvement in UK construction activity. PMI data indicate that growth in the sector was again mainly driven by activity in the commercial segment as it continued to show improvement at 54.6 this month. Housing activity contracted for a fifth consecutive month at 49.3.



Primary Market and Rating Actions

Contrary to corporate or sovereign issuance the European ABS primary market is still active and is dominated by Prime RMBS and Auto ABS. The pricing of a new Paragon deal (Paragon 16) led by Macquarie has been somewhat surprising, it seems the Australian shop is looking to play a more active role in this market.

Primary Market (Source: Markit European ABS Performance)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€mn)
Auto ABS 2011-2	German/Auto ABS	A	AAA	110	720
		B	n.r	200	80
Bella 2011-3	Australian/Auto ABS	A1	P1	65	63
		A2A	AAA	125	117
		A2B	AAA	165	155
		B	AA	n.p	43
		C	A	n.p	14
		D	A	n.p	3
		E	BBB	n.p	8
	Sub	n.r	n.p	10	
Gracechurch Mtge Fin 2011-1	UK/PRMBS	1A	P1	20	367
		2A1	AAA	155	1763
		2A2	AAA	150	400
		3A	AAA	165	257
		2Z	n.r	90	766
		3Z	n.r	90	78
Iccrea SME Cart	Italian/ABS	A	AAA	200	288
		B	n.r	100	85
		C	n.r	n.p	312
Paragon Mtge 16	UK/Buy to let	A	AAA	275	153
		Z	n.r	n.p	372
Penarth Master Issuer 2011-2	UK/Credit card	A1	AAA	75	445
Recaord Lion RMBS I	Belgian/RMBS	A1	AAA	145	929
		A2	AAA	175	1,116
		B	n.r	300	645
		Sub	n.r	n.p	61
SC Germany Auto 2011-2	German/Auto ABS	A	AAA	95	573
		B	A	155	27
Storm 2011-IV	Dutch/RMBS	A1	AAA	120	160
		A2	AAA	155	550
		B	AA	200	13
		C	AA	300	11
		D	A	400	13
	E	BBB	600	7	

Interestingly there have been few downgrades over the last couple of weeks, but there have been some upgrades particularly in the CLO area where Moody's review recently its methodology and even more interestingly Moody's has upgraded Leek 17, 18 and 19 thanks to stable credit trends and increased credit enhancement.

There is some expectation of more negative movements in the coming weeks, especially if rating agencies keep targeting European countries like Portugal, Greece or France and Germany.

Deals Affected by Rating Actions (Source: Markit European ABS)		
Deal	Country/Sector	Action
Adagio CLO I	European/CLO	Upgraded
Arena 2009-1	Dutch/RMBS	Upgraded
Asti Finance	Italian/RMBS	Upgraded
Avoca CLO IX	European/CLO	Upgraded
Avoca CLO VIII, IX	European/CLO	Upgraded
Axius European CLO	European/CLO	Upgraded
Bacchus 2006-2	European/CLO	Upgraded
Bacchus 2007-1	European/CLO	Upgraded
Brunel Residential Mtge Sec	UK/Prime RMBS	Upgraded
Dryden X Euro CLO 2005	European/CLO	Upgraded
Duchess V CLO	European/CLO	Upgraded
European Enhanced Loan Fund	European/CLO	Upgraded
FE Mtge 2005	Italian/RMBS	Upgraded
Intercontinental CDO	European/CLO	Upgraded
Leek Finance 17, 18, 19	UK/NC RMBS	Upgraded
Mercator CLO II	European/CLO	Upgraded
Neptuno CLO III	European/CLO	Upgraded
Storm 2010-I, 2010-III	Dutch/RMBS	Upgraded
Album Real Estate	European/CMBS	Downgraded
BBVA Consumo 5	Spanish/ABS	Downgraded
Capital Mtge 2007-1	Italian/RMBS	Downgraded
Claris Finance 2006	Italian/RMBS	Downgraded
Deco 10 pan Europe 4	European/CMBS	Downgraded
Deco 14 Pan Europe 5	European/CMBS	Downgraded
Eloc 24	European/CMBS	Downgraded
E-MAC DE 2006-1	German/RMBS	Downgraded
EMF NK Prime 2008-A	Dutch/RMBS	Downgraded
Epic Industrious	European/CMBS	Downgraded
Fade	Spanish/ABS	Downgraded
Force 2	German/CLO	Downgraded
Gracechurch Corporate Loan 2005-1, 2007-1	European/CLO	Downgraded
Landmark Mtge Sec 2	UK/NC RMBS	Downgraded
UBI Finance 2, 3, 5	Italian/CDO	Downgraded

Philippe Pagnotta

Director, Structured Finance

Markit

Tel: +44 20 7260 2214

Email: philippe.pagnotta@markit.com

Sofia Hoac

Assistant Vice President, Structured Finance

Markit

Tel: +44 20 7260 2357

Email: sofia.hoac@markit.com

Roman Kalyuzhny

Vice President, Structured Finance

Markit

Tel: +44 20 7260 2203

Email: roman.kalyuzhny@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.