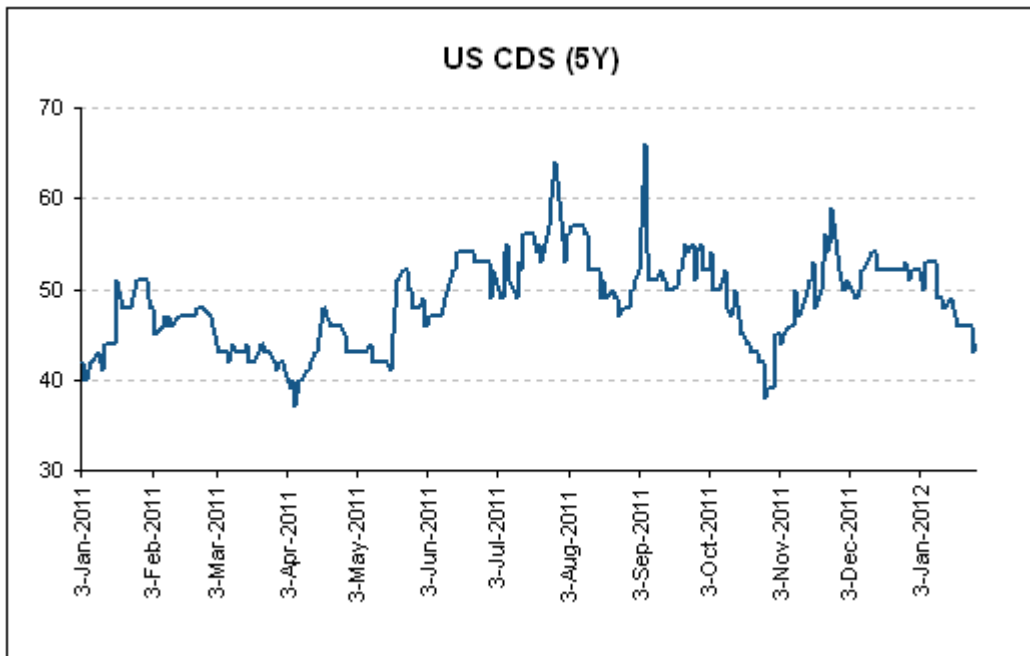


Markit US & Municipal CDS Report: Right to Work in the Rust Belt



	Current	1D	1W
USA 5Y	44	1	-2
USA 10Y	54	0	-4
Markit MCDX 10Y	201	2	-3
CA 10Y	212	0	-2
IL 10Y	232	0	2
NY 10Y	144	-2	-1
NJ 10Y	163	2	-7

US Government

Five year CDS spreads on the US government continued to tighten this week, albeit only slightly. Contracts were quoted as tightly as 42bp earlier in the week but widened again slightly following the FOMC announcement. The latest request to raise the debt ceiling ended exactly as markets expected; there was no repetition of events from last summer as the process for raising the debt ceiling changed as a result of last August's budget deal. The US Senate failed to obtain the necessary 60 votes to bring debate to a close on legislation to reject an increase in the debt ceiling limit, again not a

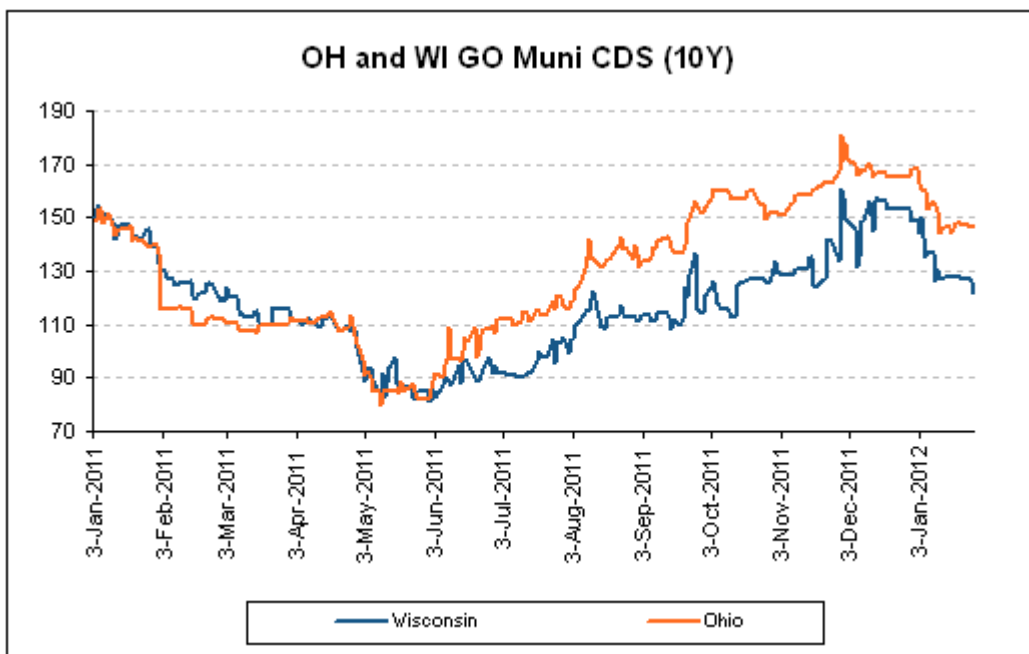
surprise considering the Democrats' control of the Senate. The vote however will be used as fodder for this year's election campaign. Estimates are that the next debt ceiling increase request may come just ahead of the election.

Municipals

On Wednesday, Indiana's House of Representatives overcame weeks of union protests and walk outs from Democrats and passed a right to work law in a 54-44 vote. The measure now will move on the Senate where passage is ultimately expected due to the commanding majority of Republicans there. The talk is that the bill could be signed by Republican Governor Mitch Daniels in time for the Super Bowl being hosted in Indianapolis on February 5th. If passed it will make Indiana the 23rd right to work state in the nation. It will be interesting to see if the NFL Players' Association, the players' union, uses the platform that the Super Bowl provides to criticize the bill.

The strong push for right to work laws, as evidenced by similar measures last year in Wisconsin and Ohio, stem from several factors: a strong Republican showing in 2010 elections, declining union membership, greater competitiveness among states to attract employers and tighter state and budget conditions demanding solutions on wages and pension benefits for public employees and teachers. Historically right to work states have only existed in the South and Rocky Mountain region. Such a push in heavily unionized Rust Belt states would have been unimaginable just a few years ago.

If the municipal CDS spread market has an opinion on right to work provisions and their relative credit impact, it is hard to say. Still a nascent market, municipal CDS spreads are not actively quoted for Indiana. CDS spreads for Ohio widened for much of November after voters overturned Governor John Kasich's anti-labor measures; score one for right to work advocates. CDS spreads for Wisconsin have tightened recently even though union sympathizers collected enough signatures to hold a recall election for Governor Scott Walker; score one for union advocates. A couple of interpretations are possible here. First, the markets have already priced in the decline of union power or their political resiliency in repealing legislation and winning recall elections. More likely the market wants to see actual budget costs and pension reforms which will be difficult legislative battles in their own right and no means guaranteed. Right to work provisions may give state and local governments more leverage to gain results that are more conducive to "belt tightening" but they still have to be won.



Markit's Municipal Evaluated Bond Pricing Service is now available. The service features pricing for over 900,000 individual CUSIPs in the investment grade space. *The Bond Buyer* published an article on the new service: http://www.bondbuyer.com/issues/120_212/markit-new-pricing-service-1032758-1.html. Please contact Kent McGuire or sales@markit.com for more information.

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