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Markit Structured Finance Research

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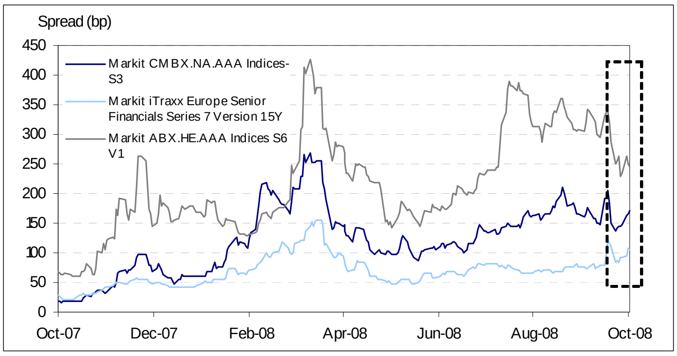
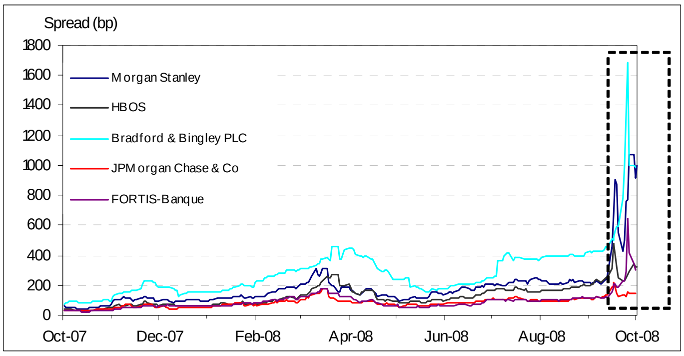
The European ABS Market

A Week in Review: 26 Sep – 03 Oct 2008

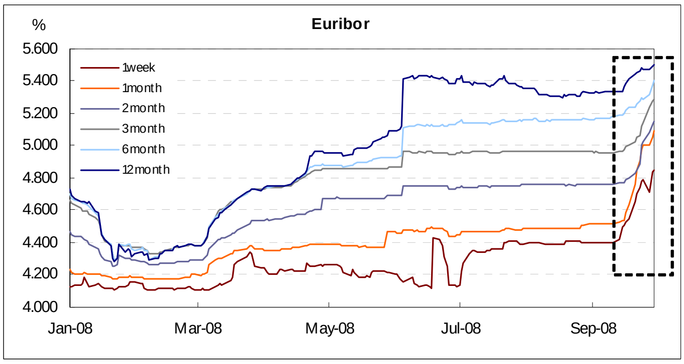
U.S. lawmakers rejection on Monday of Treasury Secretary Henry Paulson's financial market rescue package dealt a blow to ABS markets around the world as many market participants expected the plan to pass and the nation's financial institutions to start lending again. Financial CDS and the Markit ABX and CMBX indices all widened on the news:

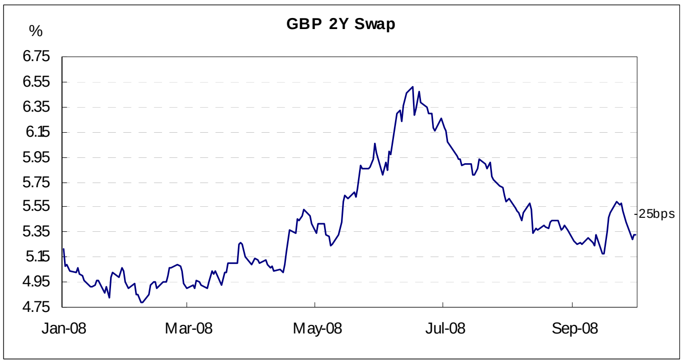




The landscape of the global financial services industry continued to change at breakneck speed as Washington Mutual was absorbed by JPMorgan, Wachovia was absorbed by Citigroup, Fortis and Dexia were bailed out by their respective European governments, Bradford & Bingley was nationalised in the UK and Hypo Real Estate was rescued at the last minute by a consortium of banks.

Lawmakers' failure to pass a rescue package has put direct pressure on monetary markets and on central banks to cut rates despite high inflation,

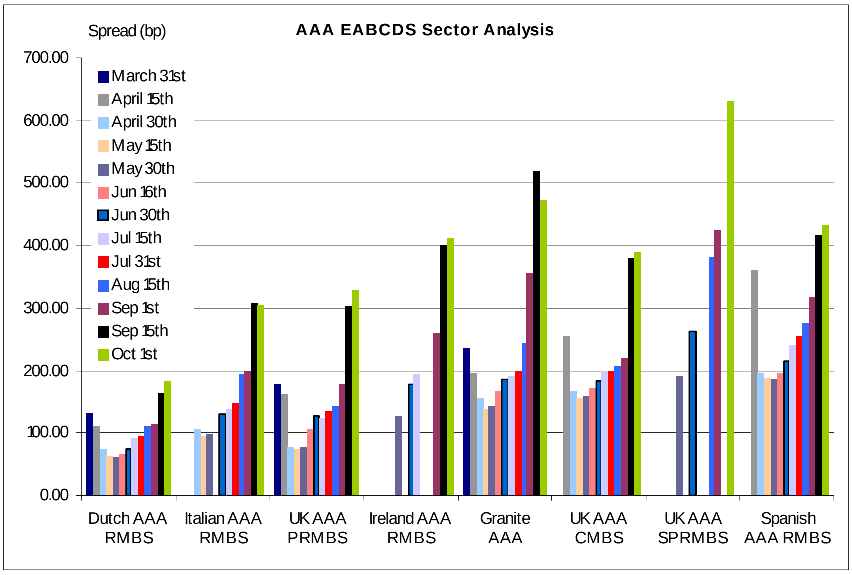




In Europe, the ABS market tracked the US indices wider, but spreads did not gap out as much as they did after Lehman Brothers filed for bankruptcy protection.

The EABCDS market has bounced around like a yo-yo during the past two weeks with EABCDS spreads widening again and a continued positive basis between the synthetic and cash markets:

Deal Name	Series	Class	Currency	Isin	Synthetic Mid Spread (bps)	Markit Cash ABS Mid Spread (bps)	Basis (Synthetic - Cash)	Average Life (yr)	Duration
Granite Master Issuer plc	2007-2	3A2	EUR	XS0298974840	477	428	50	3.202	2.551642766
Perm Master Issuer plc 2007 1	2007-1	3A	EUR	XS0288090342	303	210	92	3.202	2.687767415
Arkle Master Issuer Plc 2006 2	2006-2	3A2	EUR	XS0277508692	253	202	51	2.41	2.012617863
Holmes Master Issuer PLC 2007 1	2007-1	3A2	EUR	XS0292750253	257	248	9	2.5975	2.126255987
GRACECHURCH MORTGAGE FINANCING PLC 20071	2007-1	3A2	EUR	XS0302999064	270	230	40	3.302	2.917060914
Delphinus 2006 I BV	2006-1	A	EUR	XS0256323972	177	121	56	3.03	1.355

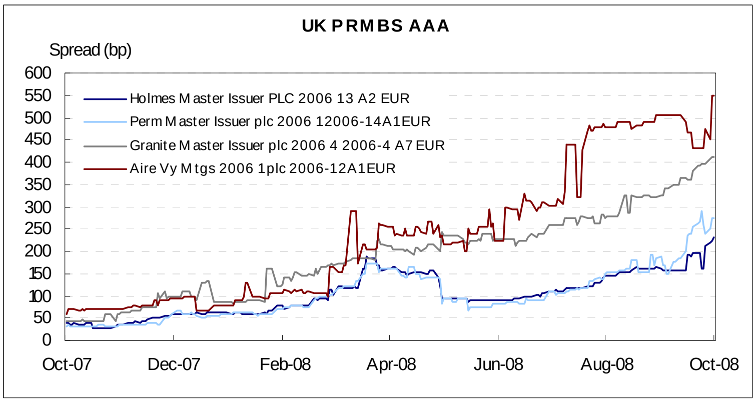


Our weekly table of the market's biggest movers once again shows no improvers:

ABS Deteriorators									
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)
Holmes Master Issuer PLC 2007 1	2007-1	3A3	GBP	XS0292750683	254	66	AAA	PRMBS	2.5
Perm Fing No 5 PLC	5	A2	GBP	XS0197069072	268	57	AAA	PRMBS	2.7
Holmes Fing No 10 PLC	2208	A2	GBP	XS0262878985	248	57	AAA	PRMBS	2.0
Perm Master Issuer plc 2006 1	2006-1	6A1	GBP	XS0270511628	271	55	AAA	PRMBS	4.5
Granite Master Issuer plc	2007-2	3A2	EUR	XS0298974840	428	51	AAA	PRMBS	3.2

The nationalisation of Bradford & Bingley has put the Aire Valley Master Trust in the same situation as Granite Master Trust after Northern Rock. The major difference is that the collateral in the Aire Valley pool is generally comprised of buy-to-let loans while Granite is made up of prime mortgages.

It is also interesting to see the spread difference for securities with a similar currency, WAL and rating, allowing us to value each risk separately:



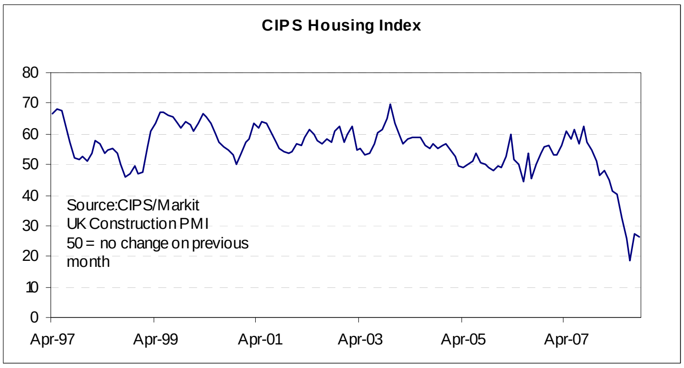
Standard & Poor's downgraded the A1 and A2 rated notes of the Eurosail 2007-3BL PLC because Lehman Brothers was receiving GBP denominated mortgage cashflows and failed to return US dollars thereby affecting the interest payment from this issuer. This type of swap counterparty risk from Lehman was expected and we have published deals that involve Lehman during the past two weeks.

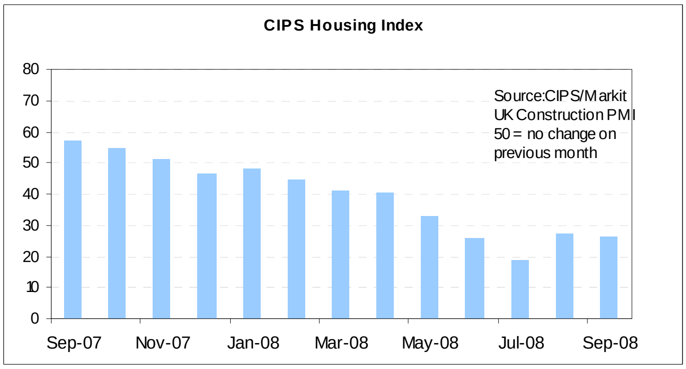
Only a few deals were priced in the primary market:

Primary Market					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Euroconnect SME 2008	German/SME CLO	A	A	250	25
		B	BBB	400	35
		C	BB	1,125	25
		D			97
IM FTPYME Sabadell 7	Spanish/SME CLO	A1	AAA	45	498
		A2	AAA	50	403
		B	A	125	65
		C	BB	175	35
Lusitano Mtge 7	Portuguese/RMBS	A	AAA	15	1,425
		B	BBB	20	295
		C		25	181
		D			57
Pendeford Master Issuer	UK/Buy to Let	A	AAA		1,259
		B	AAA		839
		C	AAA		839
		D	AAA		839

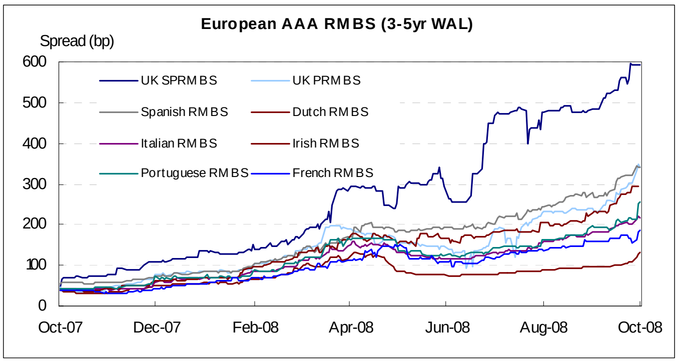
Spreads have continued to widen in the European secondary market. In the CMBS market, investors are focused on deals with exposure to financial industry tenants. In the RMBS market, the focus was again on the UK where mortgage lending dropped to £143 million, according to the Bank of England, which represents 5% of July lending and 2% of July 2007.

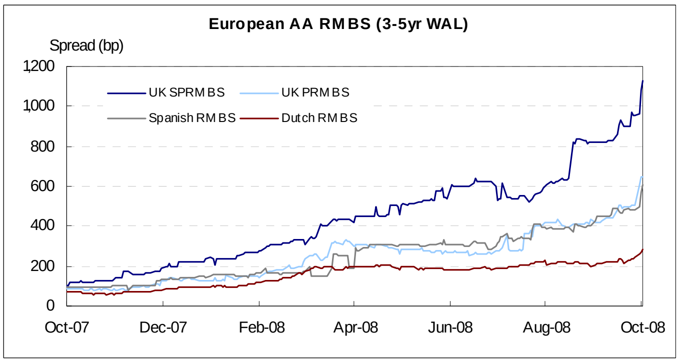
The decline of funding ability will obviously have a negative impact on UK real estate prices and the publication next week of the Halifax and Nationwide house price indices should confirm that. The Markit CIPS Housing index has already reached the third lowest level ever recorded in September:

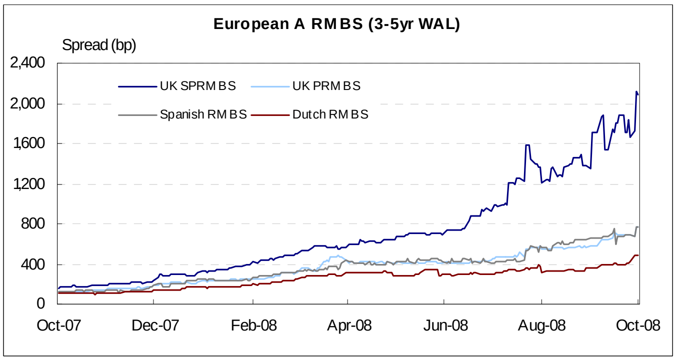


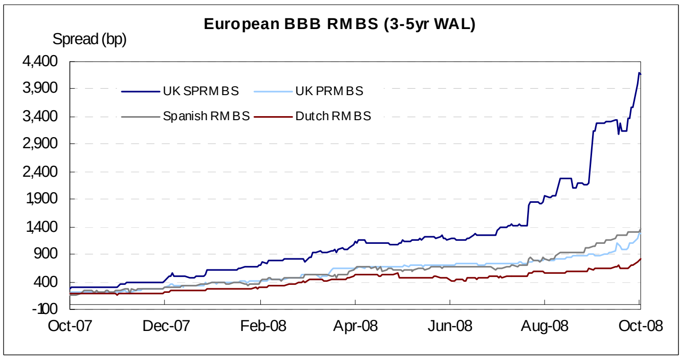


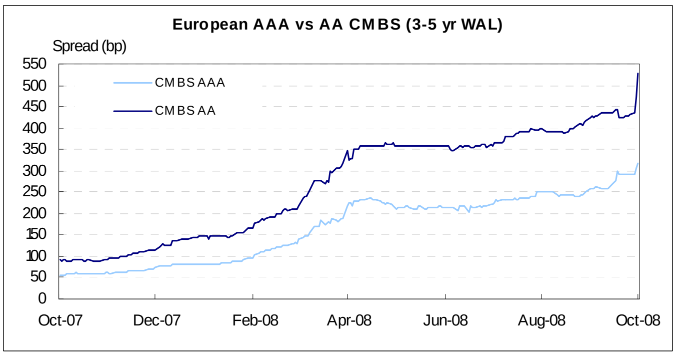
Year-on-year home sales growth in Spain dropped by 26% in July and mortgage lending declined by 33%, according to the Spanish National Statistical Institute. House prices fell by only 5% and a new house price index will be launched next month creating more transparency:

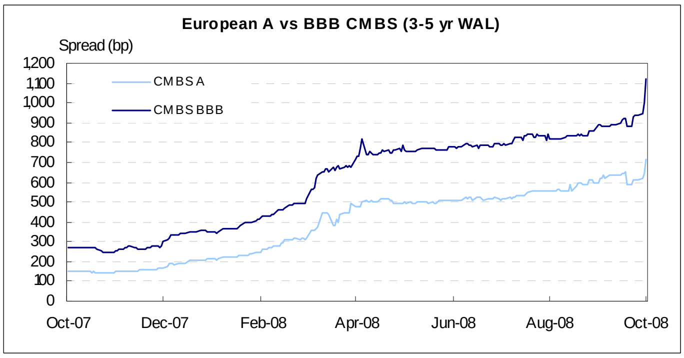












This week, despite all the bad news and readjustment, could end positively if U.S. lawmakers vote positively on Friday and pass the rescue bill, this will give the market a positive indication for liquidity and interest rates.

More importantly, after Monday long investors who have been waiting for the market to bottom out may contemplate entering the market.

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