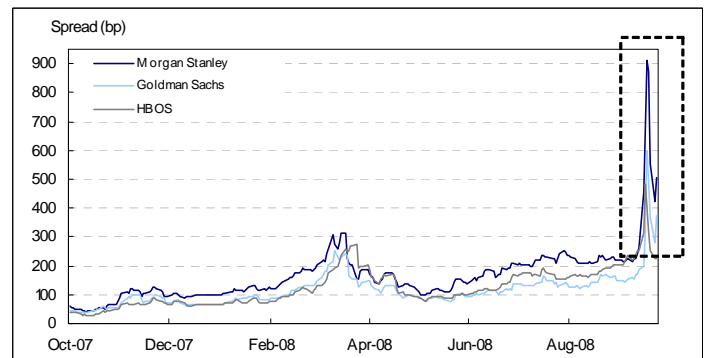
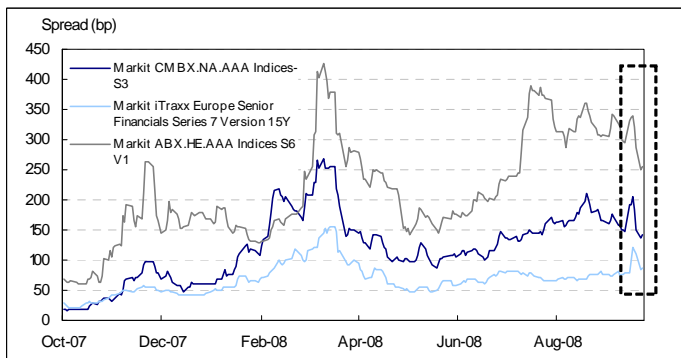


The European ABS Market

A Week in Review – 19-26 Sep 2008

Of all the recent efforts to stem the financial crisis, US Treasury Secretary Henry Paulson's move to set up a \$700 billion bailout fund to buy asset-backed securities may have the best chance of success.

The repo plans launched by various central banks since the beginning of the year succeeded to some extent in propping up ABS values. But as the dramatic events of the past two weeks reshaped Wall Street, it became increasingly clear that global credit and housing markets would never fully recover without a massive intervention. ABS and the financial sector of the corporate credit market remained exceptionally volatile as details of the rescue plan emerged:



In Europe, Lloyds TSB's takeover of HBOS (five-year CDS narrowed 260 basis points in a week) had a positive impact on UK ABS bonds. AAA synthetic spreads on Granite and Permanent ABS narrowed to 340 basis points from last week's peaks of 520 and 250 basis points, respectively.

During what may have been the most volatile week ever in ABCDS/ABS markets, going long on Tuesday and short on Friday would have been the winning strategy.

Cash ABS spreads maintained a positive basis of as much as 15 basis points relative to synthetic spreads even as dealers finished hedging their books and the market rallied on the Bush administration's bailout plan on Monday.

The week's five biggest movers were again all deteriorators:

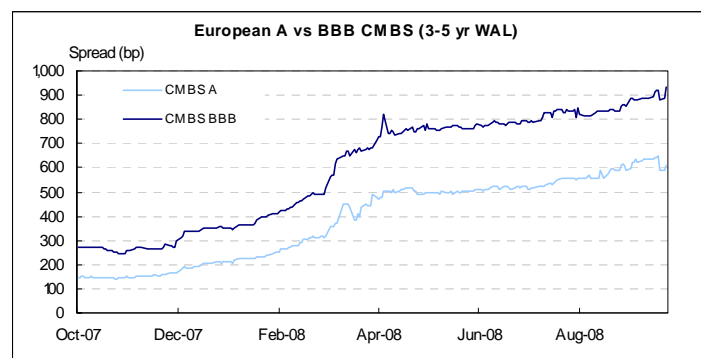
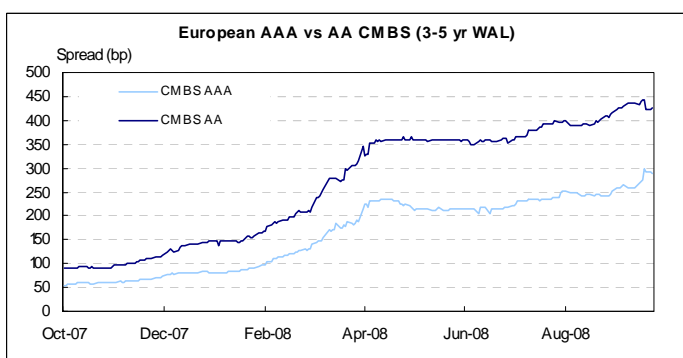
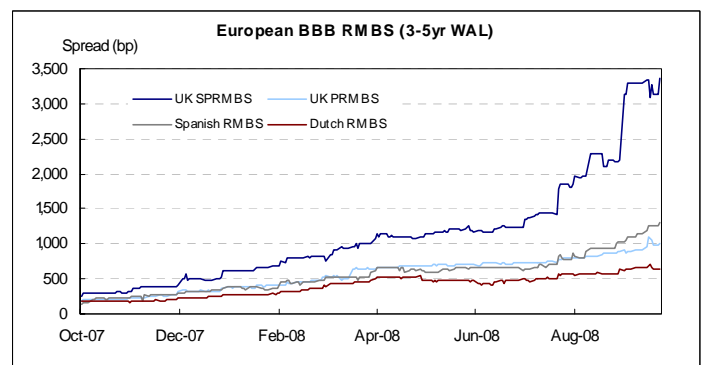
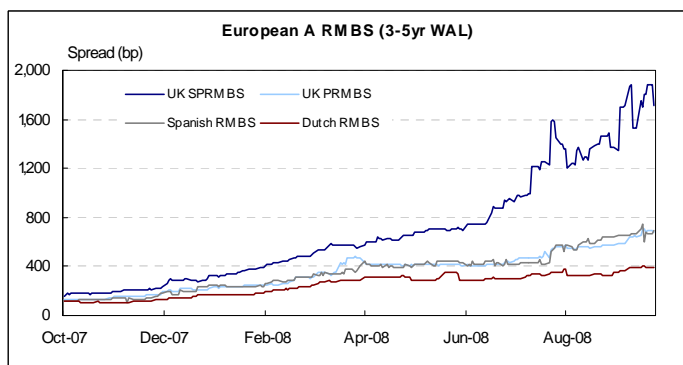
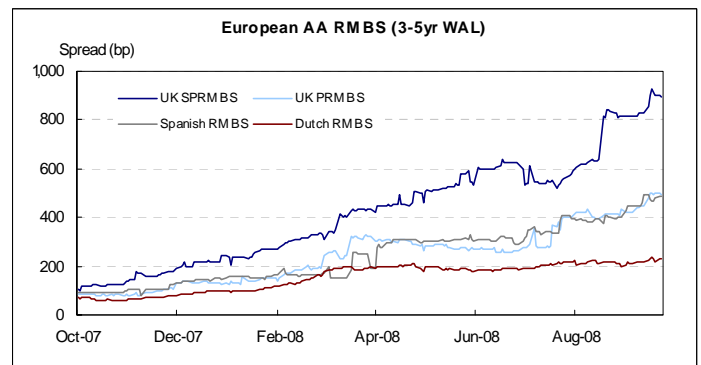
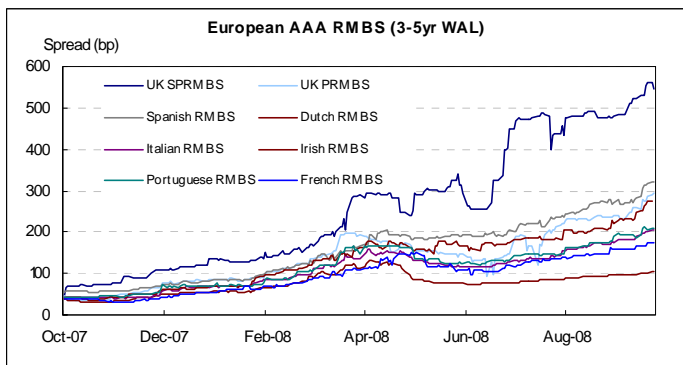
ABS Deteriorators									
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)
RMAC 2005 NS1 Plc	1	A2c	EUR	XS0212189103	574	109	AAA	SPRMBS	2.6
FONDO DE TITULIZACION DE ACTIVOS UCI 6	6	A	EUR	ES0338558002	365	95	AAA	RMBS	2.3
RMAC 2004 NS3 PLC	NS3	A2c	EUR	XS0200802568	491	79	AAA	SPRMBS	1.8
Italease Fin Spa 2005 1	2005-1	A2	EUR	IT0003827539	283	79	AAA	Equip Lease	2.3
Granite Mtgs 04-3 Plc	2	A2	EUR	XS0201483228	359	57	AAA	PRMBS	0.7

Three new deals priced during what was probably the worst week ever to price new deals. All of the deals were retained. The massive £15.5bn Silverstone (Nationwide) deal notably has a very low loan-to-value ratio of 61%:

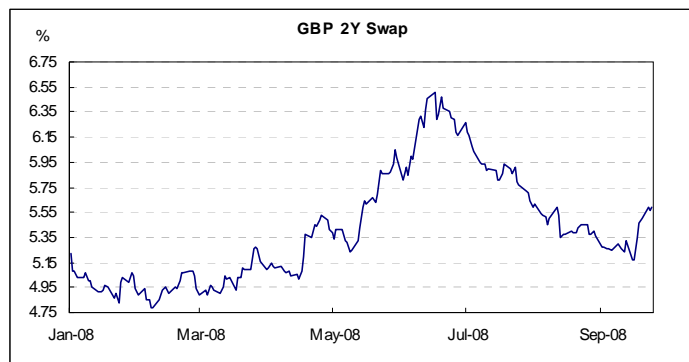
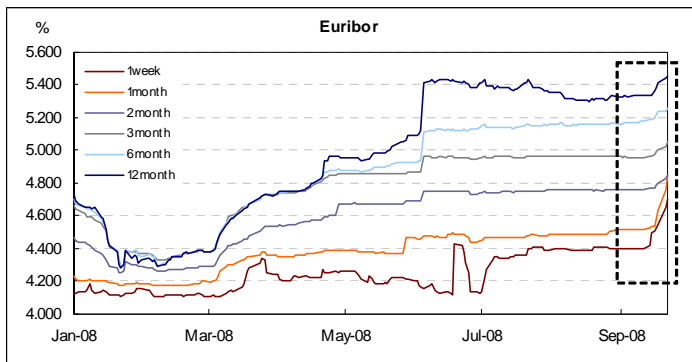
Primary Market					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Bankinter 4 FTPYME FTA	Spanish/SME CLO	A1	AAA	32	160
		A2G	AAA	30	174
		A3	AAA	34	20
		B	A	50	30
		C	BBB	70	16
Silverstone Master Issuer 2008-1	UK/PRMBS	A	AAA	10	17,735
		Z		150	1,858
Tanus	German/SME CLO	A	AA	95	845
		B		1,000	155

Fitch Ratings, Moody's Investors Service and Standard & Poor's warned of potential downgrades to all of the deals involving Lehman Brothers that we highlighted last week ([September 19, 2008 "Week in Review"](#)).

Cash ABS spreads widened in the secondary market, mainly due to volatility in the synthetic market:



The massive rescue plan that appears to be underway in the US should help the credit/housing/money markets recover and decrease pressure on central banks to cut rates to achieve their basic targets: price stability, growth and low unemployment:



The market needs strong action and it appears to be getting it. The \$700 billion dollar question is why did we have to wait until economies around the world reached the brink of recession before drastic measures could be taken to steer an end to the financial crisis?

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