

# Weekly Credit Update

## Summary

- Credit remains well bid and primary market activity is picking up again.

## Market comment

The strong ISM Manufacturing numbers from the US that were released on Wednesday marked a turnaround in both equity and CDS markets as they eased fears among investors that the economy is heading for a double-dip. The important US payroll report today will give us the next indication.

The iTraxx investment grade index tightened 5bp after the ISM figures were released and the Crossover index tightened some 10bp. Cash credit remains well bid in the absence of significant new supply and we continue to be of the view that credit offers an attractive alternative for many investors compared with the depressed government bond yields and uncertain equity markets. 'BBB' cash spreads currently trade approximately 100bp wider than before the crisis hit in 2007 and with underlying yields lower today compared with 2007 the relative attractiveness of credit remains in our opinion.

## The primary market

Primary market activity for non-financial companies was subdued at the beginning of the week but has picked up over the past few days. The Continental deal marked the reopening of the high yield market and interestingly the Australian oil and gas company, Santos, will go on a roadshow next week in order to explore the possibilities of issuing hybrid debt.

In addition, banks have recently been taking advantage of strong investor appetite for covered bonds and several deals came to the market during the week – with more expected in the coming weeks. Senior unsecured issuance has been somewhat cannibalised by the issuance of covered bonds but in the past few days we have seen senior unsecured issues from European banks including a EUR0.75bn bond from Finnish Pohjola Bank. Going forward, we expect issuance to pick up further and we also think that investor appetite is strong enough to absorb the new supply without causing spreads to widen significantly.

### iTraxx Europe (5Y CDS)



Source: Markit

### iTraxx Crossover (5Y CDS)



Source: Markit

**Table 1. Selected new issues during the week**

Name	Rating	Coupon	Maturity	Currency	Size	Bond spread on issue date, (bp)*
Lloyds Bank	Aa3/A+	Fixed	5Y	EUR	1.25bn	200
BBVA	Aa2/AA	FRN	2Y	EUR	1.0bn	155
Telefonica	Baa1/A-	Fixed	7Y	EUR	1.0bn	148
Continental	B1/B	Fixed	7Y	EUR	0.75bn	Gov +581
Pohjola Bank	Aa2/AA-	Fixed	7Y	EUR	0.75bn	90
Rabobank	Aaa/AAA	FRN	3Y	EUR	0.5bn	45

Note: Ratings are Moody's and S&P. \* Mid-Swaps for Fixed, Discount Margin for floating

Source: Danske Markets & Bloomberg

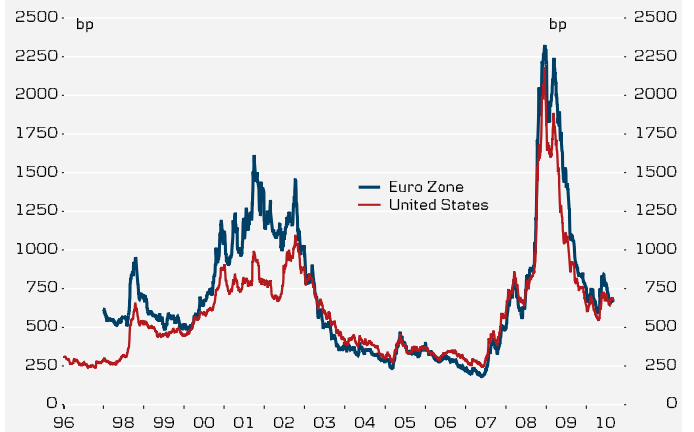
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### US investment grade CDS index (CDX)



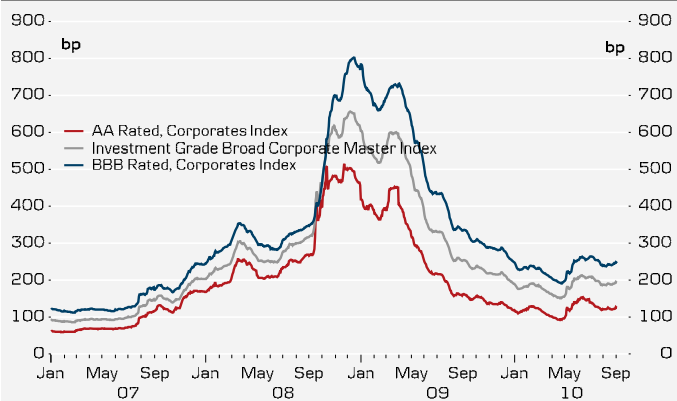
Source: Ecowin Pro

### Merrill Lynch US & European high yield cash indices



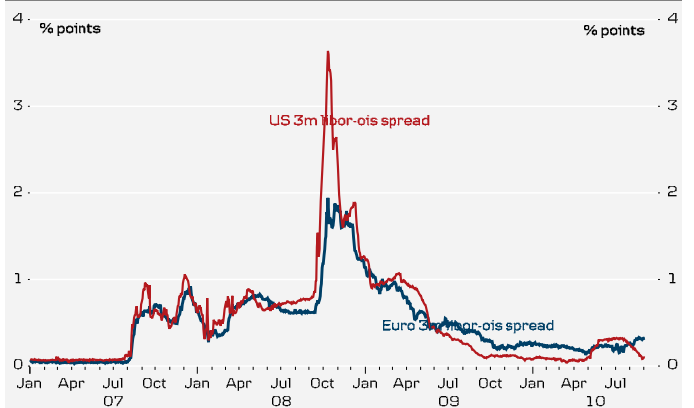
Source: Ecowin Pro

### US cash indices



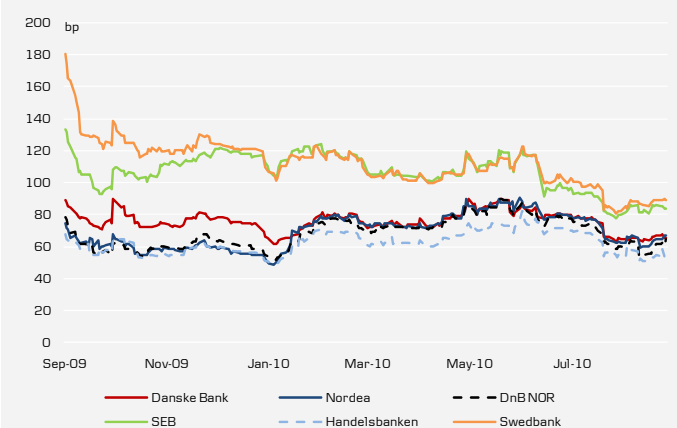
Source: Ecowin Pro

### 3M LIBOR-OIS spread



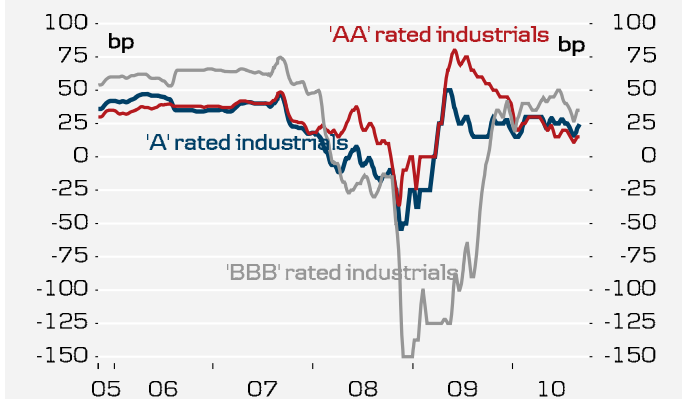
Source: Ecowin Pro

### Nordic banks 5Y CDS spreads



Source: Danske Markets

### Slope of US credit curves (2Y spread - 10Y spread)



Source: Ecowin Pro

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