

Weekly Credit Update

Summary

- CDS spreads moving wider but cash spreads show more resilience

Market comment

Weak numbers from the US (durable goods and new home sales) shook the markets sending equities lower and CDS indices wider. Cash credit remains relatively well bid, however, with spreads showing resilience. To us this suggests that investors are still allocating funds to the asset class. In an environment with very low Government yields and a high degree of uncertainty in equity markets credit offers an attractive alternative for many investors. Companies are currently being conservative with their balance sheet and combined with easing lending standards and low interest rates the outlook for default rates is benign. Negative event risk is mainly likely to be in the form of M&A activity as evidenced by BHP Billiton's takeover bid for Potash last week.

The investment grade index, iTraxx Europe, trades at 117bp, some 10bp wider than last week while the high yield index, iTraxx Crossover, trades at 520bp up 40bp from last week.

The primary market

After a quiet summer, the primary market is slowly coming back to life. In the Nordic region SEB came to the market with a EUR750m 5Y bond at 87bp above swap. Furthermore, Sydbank came to the market with a EUR1bn 2Y bond at 100bp. Going forward, we expect issuance to pick up further and unless we see renewed significant weakness in the market, we think that there will be sufficient demand to absorb the 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)*
Renault	Baa2/BBB-	Fixed	2Y	EUR	0.5bn	160
Volkswagen	A3/A-	FRN	2Y	SEK	0.7bn	n/a
Sydbank	NR/A1	FRN	2Y	EUR	1.0bn	100
SEB	A1/A	Fixed	5Y	EUR	0.75bn	87

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

Source: Danske Markets & Bloomberg

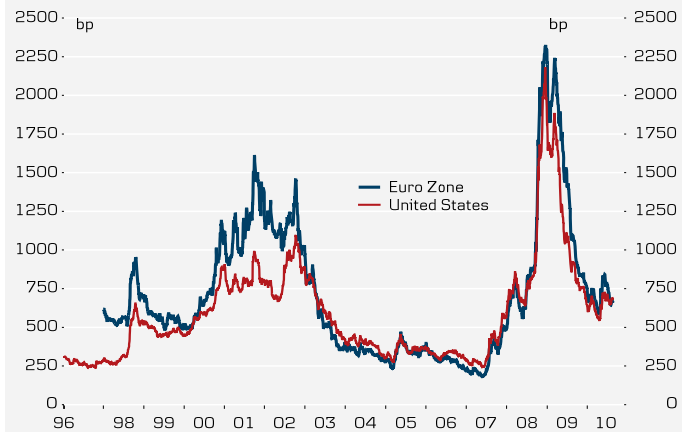
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US investment grade CDS index (CDX)



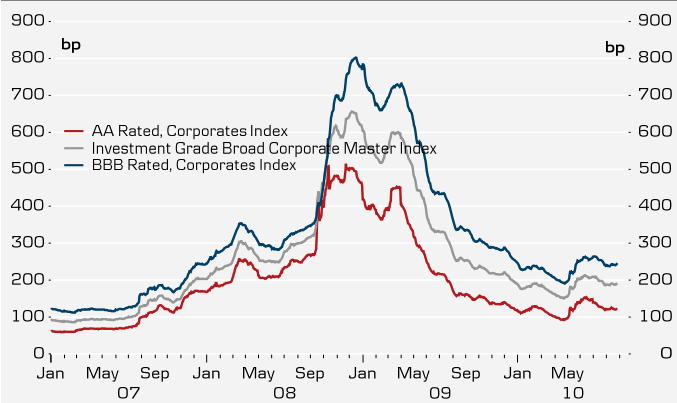
Source: Ecowin Pro

Merrill Lynch US & European high yield cash indices



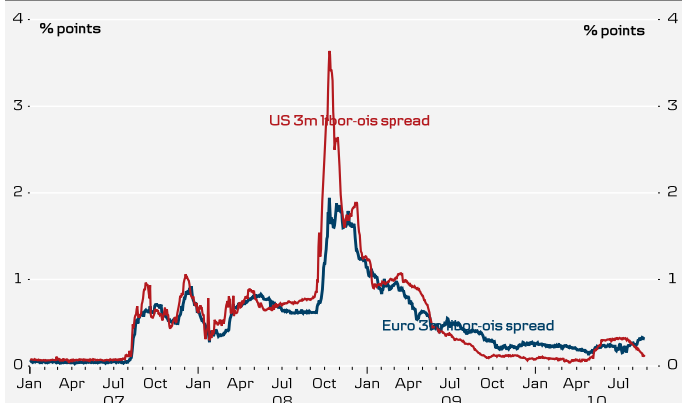
Source: Ecowin Pro

US cash indices



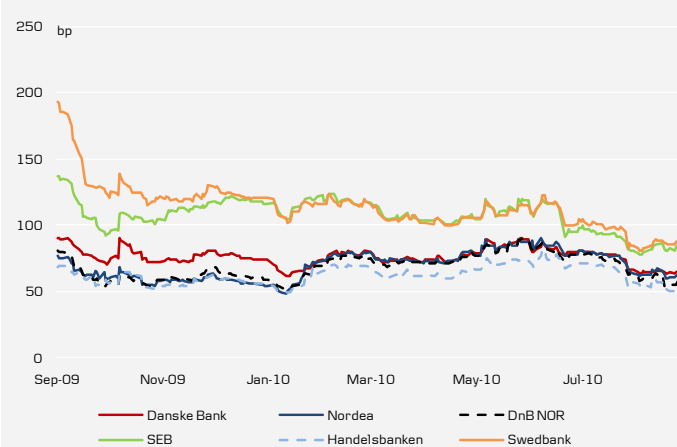
Source: Ecowin Pro

3M LIBOR-OIS spread



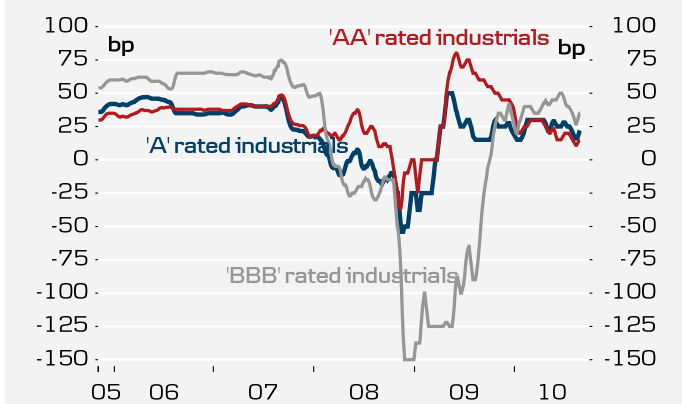
Source: Ecowin Pro

Nordic banks 5Y CDS spreads



Source: Danske Markets

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



Source: Ecowin Pro

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