Securitised product snapshot

January 2014

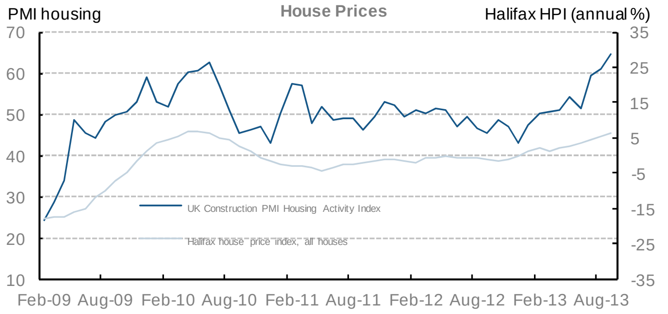
European ABS market

Economic data

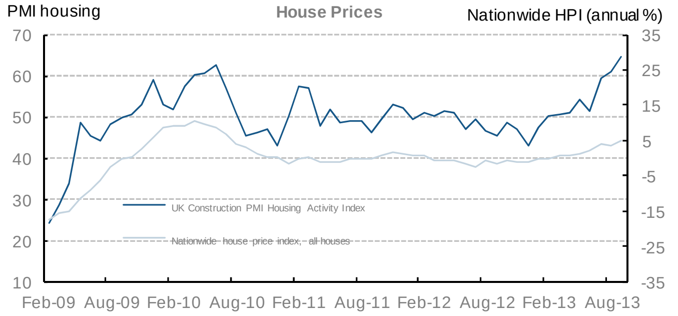
Housing growth in the UK is definitely going over the roof with a Construction PMI reading of 62.1 in December and with the housing activity still improving at 63.7. The Halifax index showed a 7.5% year-on-year increase in house prices (-0.6%). Meanwhile, the Nationwide index showed a massive 8.4% increase (+1.4%). This means that the Nationwide index is increasing at a faster rate than the Halifax one.

The future HPSI, which measures what households think will happen to the value of their property over the next year, jumped to a new high of 72.3 this month, up from 70.5 in December, and past the previous record high of 71.1 set in October.

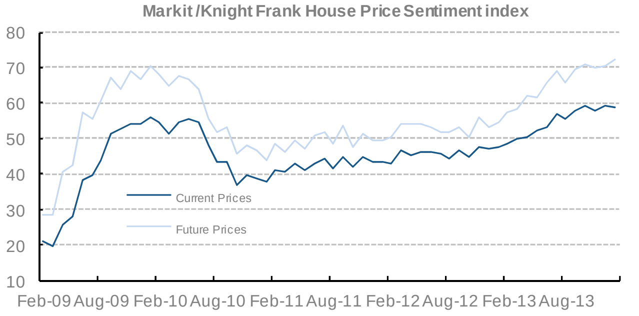
More than a half of respondents said they expected the value of their home to rise in 2014, with only 6.4% anticipating a decline.



Source: Markit Economics, Halifax



Source: Markit Economics, Nationwide

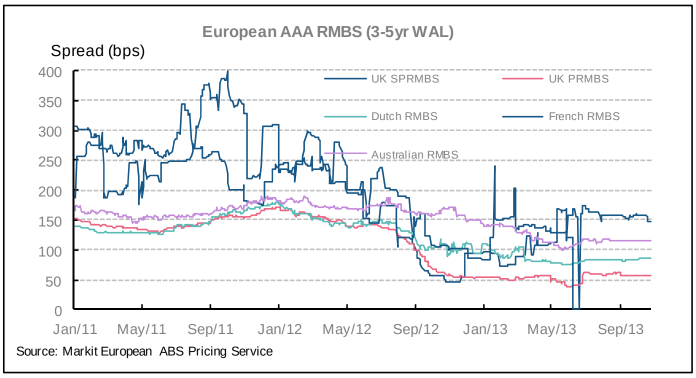


Source: Markit Economics, Knight Frank

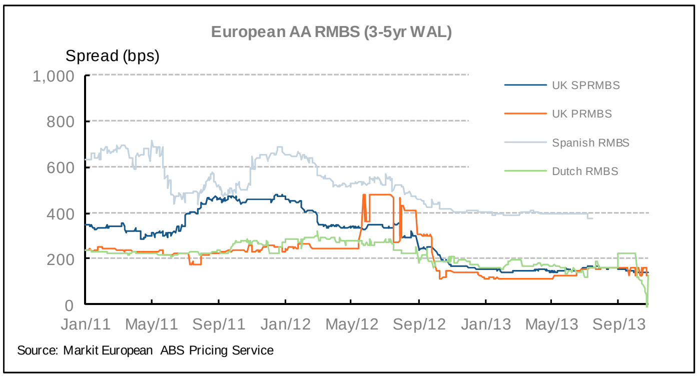
European ABS pricing and sectors

Spreads tightened in the broader ABS market, particularly in the UK BTL and longer dated Dutch Prime RMBS. Lack of supply due no issuance in the month of January and almost 5 billion euros of redemption in week 3 alone in the UK market, most of which was due to redemption in the senior bonds of PERMM, has contributed to this. This has been somewhat offset by news that Credit Foncier is working on a French RMBS transaction that would provide the much needed supply in the market. Activity has been mainly conducted through flows while BWICs have been thinly traded. The peripheral markets of Italy, Portugal and Spain steadily tightened before news of trouble in Brazil and Argentina towards the end of the month drove spreads 3-5 bps wider. In December, Brazil recorded high inflation levels of 0.92%, pushing its annual inflation figure to 5.91%. The Argentinian peso kept depreciating throughout the end of the month and falling by 15% against the dollar on one single day.

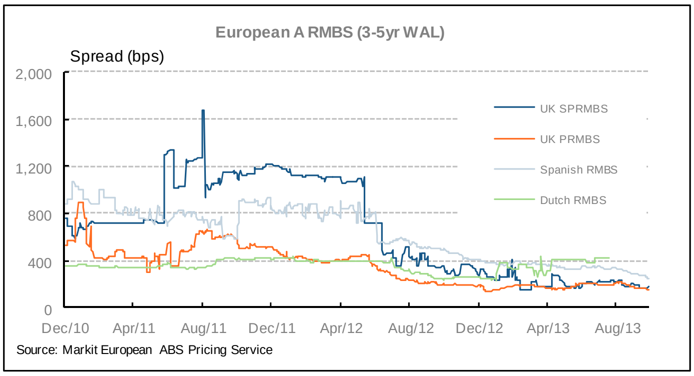
Sector	Spread Mid (bps) Nov2013	Spread Mid (bps) Jan2014
ALL Auto Lease AAA Float (1-4)	82	78
ALL Auto Loan AAA Float (1-4)	40	40
ALL CMBS AAA Float (3-5)	106	93
ALL Credit Card AAA Float (1-4)	36	35
Australia RMBS AAA Float (3-5)	112	109
Italy RMBS AA Float (1-3)	165	156
Netherlands RMBS AAA Float (1-3)	53	50
Spain RMBS AA Float (5-8)	254	222
United Kingdom Granite AAA Float (1-3)	75	65
United Kingdom PRMBS ex. Granite AAA Float (1-3)	38	38
United Kingdom SPRMBS AAA Float (1-3)	136	112



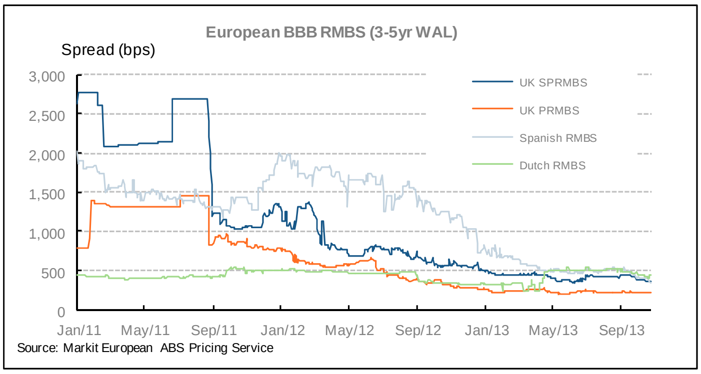
Source: Markit European ABS Pricing Service



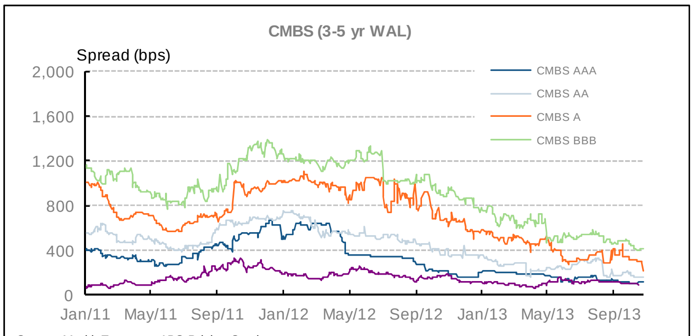
Source: Markit European ABS Pricing Service



Source: Markit European ABS Pricing Service



Source: Markit European ABS Pricing Service



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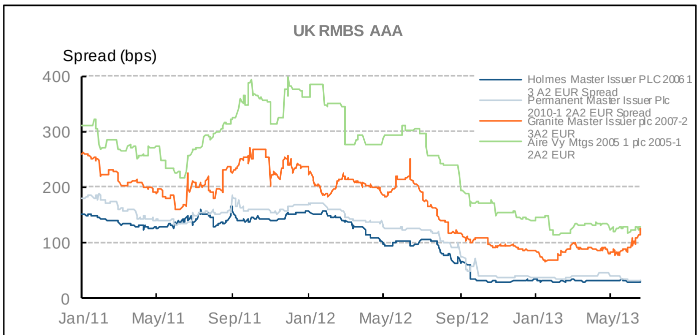

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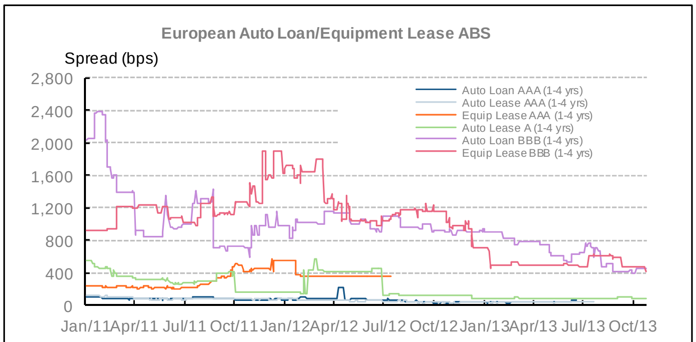

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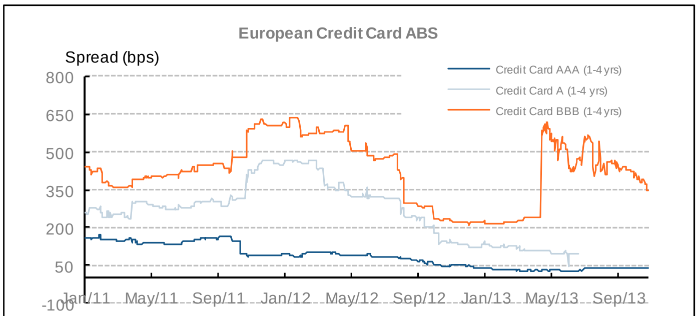
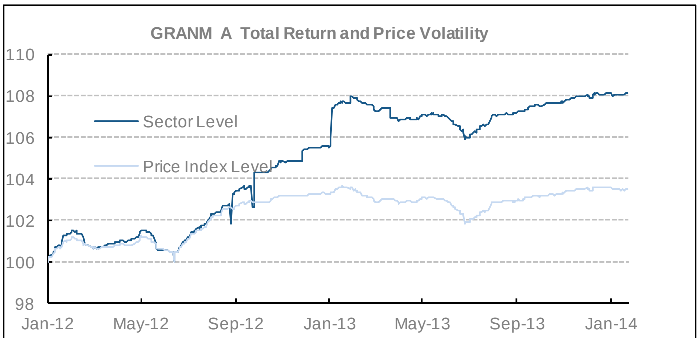
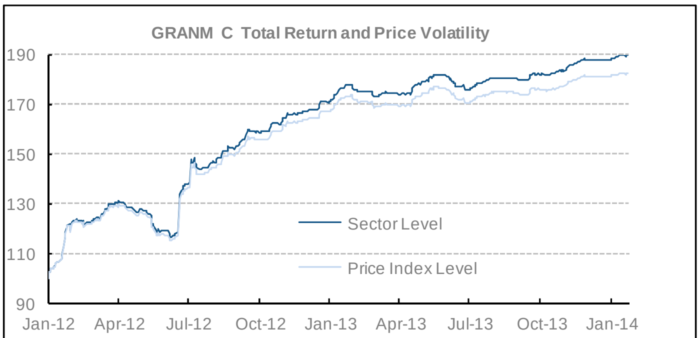


Source: Markit European ABS Pricing Service

Granite senior levels are remaining stable and their total return levels are still increasing. The A, B, M and C tranches are now traded respectively at 99.3 (58bps), 96.5 (107bps), 96.35 (106bps) and 94.4 (177bps). The B, M and C tranche levels have all increased since November by at least one point.



Source: Markit

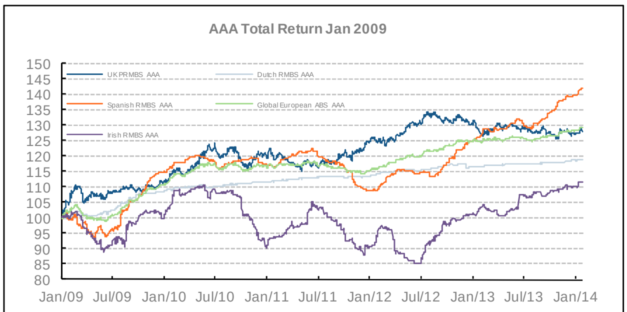


Source: Markit

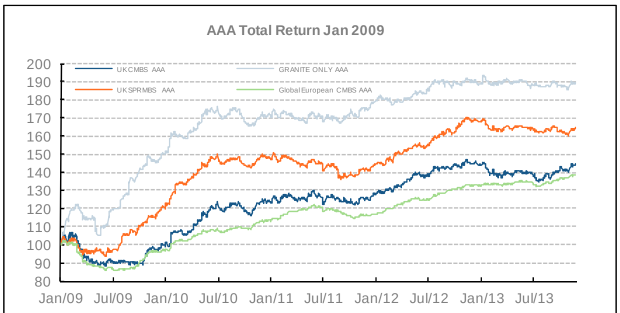
Primary market

No ABS deal was printed in Europe during the first month of 2014.

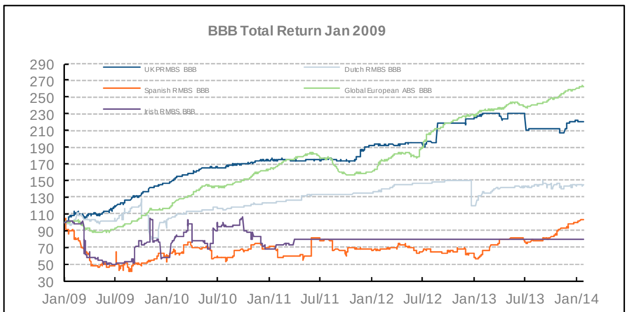
European total return



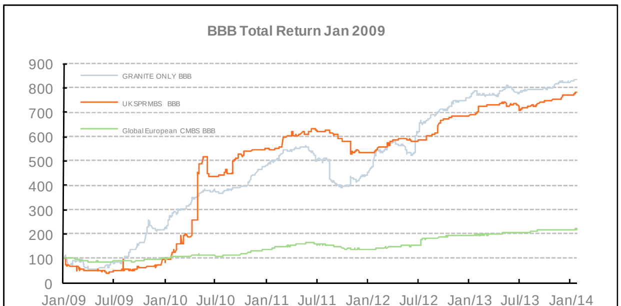
Source: Markit European Total Return Analysis Service



Source: Markit European Total Return Analysis Service



Source: Markit European Total Return Analysis Service



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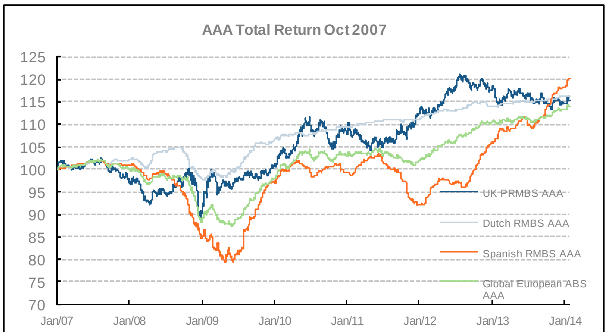

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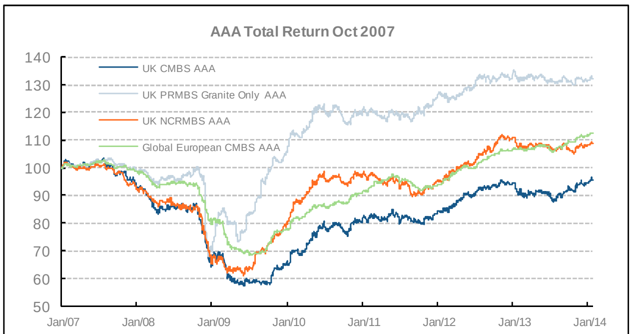

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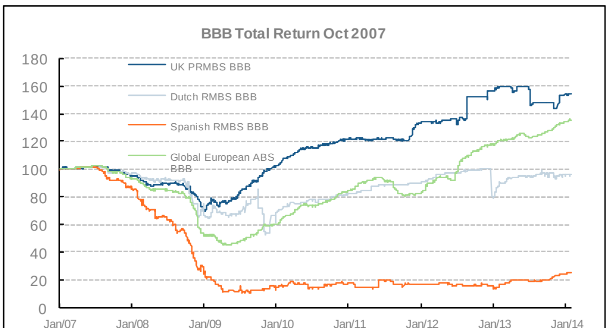

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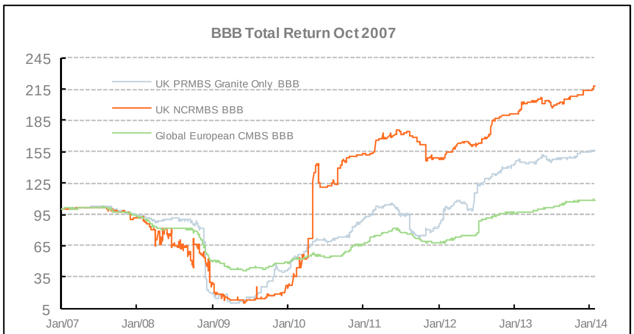


Source: Markit European Total Return Analysis Service

US ABS market

Overview

As expected, there was a definite pick up in pace as we made our way through January compared to the end of December. Most sectors experienced positive momentum and saw spreads tighten in.

CLOs

2013 ended with over $80bn in new issuance spread across 167 deals. This is reminiscent of 2006 and 2007 which saw ~90bn in each of those two years. In both December and January we observed spreads varying significantly depending on position in the capital structure. Generally AAAs finished the year on a soft note and the bottom of the stack was on fire. This has carried over into January pushing the basis between AAAs and BBs to the narrowest point we have seen in quite some time. Another important announcement, which is likely very positive for CLOs, is the SEC's decision to exclude Trust Preferred securities from the Volcker rule. Given some CLOs would be subject to inclusion, this has some industry analysts wondering if the same sort of exclusion could be extended to CLOs – a huge win for AAA holders.

Generic Markets (DM)			
Vintage	**1.0**	**2.0**	**Eur.**
AAA Amortizing	100-115	N/A	95-110
AAA	120-145	150-165	120-130
AA	160-190	200-230	160-185
A	195-260	295-310	225-260
BBB	270-350	400-425	330-350
BB	495-600	600-630	550-600

CMBS

Since our last post in November, spreads on CMBS are largely unchanged. The GG10 has experienced some spread compression, but other higher parts of the capital structure remain stuck at their previous levels. On the heels of this and the CREFC conference, we are under the impression that more investors are going to start looking even further down the capital structure in search of better returns. Lastly, with the recent steepening of the treasury curve, new issue deals are seeing higher demands from both real and fast money accounts alike.

Generic Markets (Spread to Swaps)		
Vintage	**Senior**	**AM**
2005 (CD1)	95 (A4)	80
2006 (CD3)	105 (A5)	110
2007 (GG10)	170 (A4)	390
2011 (LC1)	86 (A3)	
2012 (LC3)	85 (A4)	

Non-agency RMBS

2013 ended with just under $29bn in new securitization across 100 deals (including HELOC ABS). We are excited about the number as it surpassed our initial expectations of $25bn and may foreshadow 2014 issuance. Most expectations for the current year point at $40bn to $45bn in new paper. 2013 brought in a resurgence of large dealer participation. We observed multiple issues from Credit Suisse, three from JP Morgan and one from Nomura, and 2014 may open the door for other brokers and hopefully will usher in the era of the next Non-Agency RMBS securitization rally. Thus far we have seen one new issue of note; it is the 2nd of the Connecticut Avenue Securities securitizations (2014-C01), which is a shared risk style structure in which Fannie Mae makes a bulk of the collateral GSE eligible while another portion is not government secured. Of the $29bn deal, $650mm is split between the M-1 and M2 tranches which are the two unguaranteed pieces of the deal.

The 2nd week of December brought us the first piece of the ING liquidation, which is owned the by the Dutch government (IABF). The December $5.1bn BWIC, predominantly Pay Option ARM and Alt-A bonds, was well received, and traded better than expected. By the end of the day about two-thirds of the list was absorbed by customers and the remainder retained by the banks. Following the holidays, another $4.2bn portion of the ING liquidation hit the market and again we saw good absorption rates, where only one-fourth of the bonds were retained by banks. Many of the bonds were quickly on REO after the dust settled. The 2nd portion was predominately Alt-A securities, with a sprinkling of other bonds. With over $9bn gone, we expect the remaining portion of the portfolio to be auctioned off sooner than later as the market has been receptive of the supply. The remainder is comprised of roughly $2.1bn in mostly Alt-A securities and also consists of the highest priced bonds within the portfolio (>$90).

Generally, trading volumes are slightly lower in January, usually a time when we would see some large liquidation or market activity, either whether CDO liquidations or a sell-off of large portfolios. TRACE activity, aside from the ING liquidation, has been light and most of the recent transactions came from REO activity from the ING portfolio. Looking forward, we do not expect more large liquidations, aside from a few large BWICs from the GSE. It will be interesting to see the shift in market momentum and if the lack of supply leads to an increased push towards new issuance.

The ING BWIC brought in an infusion of supply and price movement in to the market over the past month. Overall prices are up over 2 points throughout the month with Alt-A and Pay Option ARM sectors leading the pack. Notably we have seen increased price movement in the Option ARM Mezz portion of the capital structure. Short WALs coupled with decreased REO buckets and increased prepayment speeds has led to a rally in prices for these bonds. The NAIC results were recently released. The group has expanded their list of NAIC rated bonds, which will cast a wider net of eligible securities for insurance companies who are interested in the Non-Agency RMBS market. The expansion of NAIC rated bonds is good news for our industry as insurance companies led the way in demand last year.

This month also consists of the SFIG conference in Las Vegas. So far we hear the conference has been well attended with a generally optimistic view on the future of our market. The REO-to-rental securitizations are a notable topic this year, as many believe it will be the next big product within the market.

Consumer ABS

Spreads were generally tighter across most Consumer ABS asset classes since our last update in late-November 2013. Leading the charge were subordinated bonds backed by private student loan and subprime auto loan collateral, each tightening anywhere from 10-30 bps, as investors migrated to higher-yielding asset classes. Following the positivity at the SFIG conference, the consumer ABS market is poised for further tightening based on increasingly positive technical performance; however market participants remain cautious about several looming regulatory initiatives. Please see the table below for current spreads across all asset-classes:

Generic Spreads by Sector			
Prime Auto Loan		WAL	Spread
Class A	FIX	0-2	11
		2+	24
Class B	FIX	0-2	23
		2+	50
Credit Card			
Class A	FIX	0-3	17
		3+	40
Class A	FLT	0-3	9
		3+	29
FFELP Student Loan			
Class A	FLT	0-5	49
		5+	68
Class B	FLT	5+	281

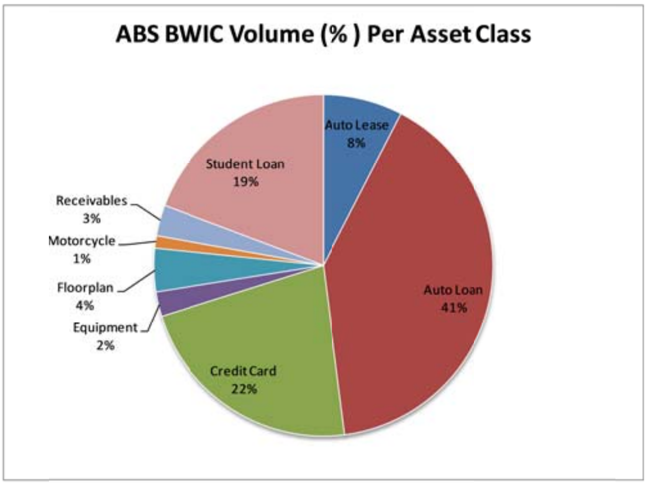
Subprime Auto Loan		WAL	Spread
Class A	FIX	0-1	27
		1+	43
Class B	FIX	0-2	40
		2+	86
Credit Card			
Class B	FIX	0-3	64
		3+	126
Class B	FLT	0-3	44
		3+	71
Private Student Loan			
Class A	FLT	0-2	81
		2-5	143
Class B	FLT	5-10	264

Consumer ABS new issue totaled approximately $9.76bn across 10 deals since the start of the New Year. Auto-related collateral accounted for about two-thirds, or $6.36bn , of the new issue total while Cards made up for the remaining one-third of new deals coming to market. Please see below for a detailed breakdown across all asset-classes:

US New Issue ABS*		
Asset Class	Amount (mm)	Number of Deals
Auto	6,360.00	7
Card	3,400.00	3
Equipment	-	-
Floorplan	-	-
Rate Reduction	-	-
Student Loan (FFELP)	-	-
Student Loan (Private)	-	-
Total	9,760.00	10

*January 1 - January 27

BWIC activity totaled $1.71 billion since January 2nd with over 53% coming from bonds backed by auto-related collateral. Flows were expectedly low last week due to the industry conference taking place in Vegas however we already see 10 BWICs scheduled for the 27th of January and even more for later in the week. Please see the chart below for a breakdown of BWIC volumes across all asset-classes:



Agency

In a concession to banks, global regulators announced more relaxed Basel III leverage ratio requirements. The rule reduces the amount of capital firms must hold against repurchase agreements and is expected to increase liquidity within the Agency MBS market in the long term. In specified pools, demand for faster paying pools in discounted cohorts boosted payups for low loan balance and low LTV pools. A primary dealer offering new production FNM.30.350 LLB specified pools at 6 tics payup as of year-end had increased the offer for similar pools to 8 tics by January 24th, despite more than a full point rally in TBAs for that cohort over the same period. Looking forward to 2014, monthly issuance was expected to decline faster than Federal Reserve purchases; however net mortgage supply net of the Fed was forecast to turn positive later in the year. The mix of the Fed's MBS coupon purchases remained stable and tracked issuance as usual.

January was one of the lightest months of CMO issuance in recent years, which forced investors to focus more on the secondary market. Investors seem to be focusing more on PACs and sequential floaters because of their better interest rate and prepayment protection compared to other GSE paper. Investors have also been purchasing longer duration PACs, in expectation of more stable long term cash flow. Since the beginning of this year, investors have been average net sellers of CMOs to the tune of $150 million per day.

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