

Securitised product snapshot

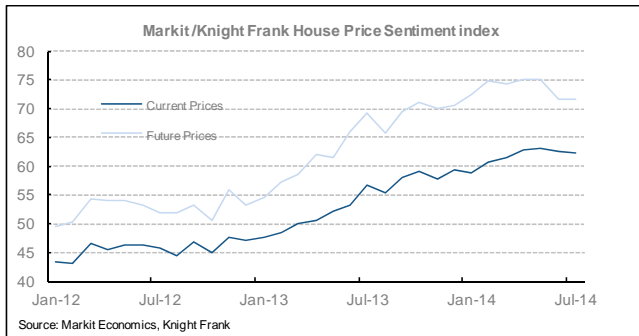
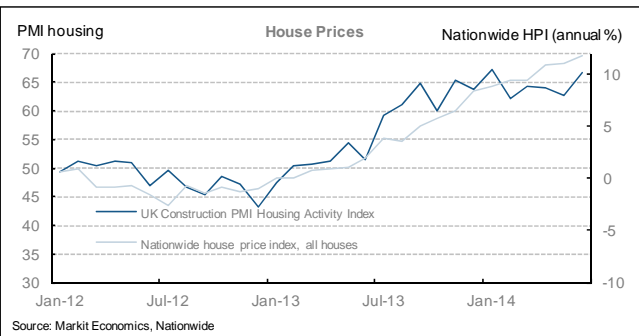
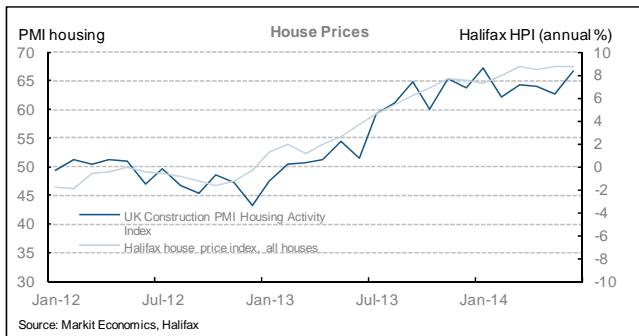
July 2014

European ABS market

Economic data

Housing growth in the UK is still rising significantly with a Construction PMI reading of 62.6 in June and with the housing activity still improving at 66.6, the second highest monthly increase over a four-year period. The Halifax index showed an 8.8% year-on-year increase in house prices with a small decrease of -0.6% in terms of month-on-month movement. Meanwhile, the Nationwide index showed a 11.8% increase (+1%).

The future HPSI, which measures what households think will happen to the value of their property over the next year, is still improving to 71.7 this month, up from 71.6 in May.



European ABS pricing and sectors

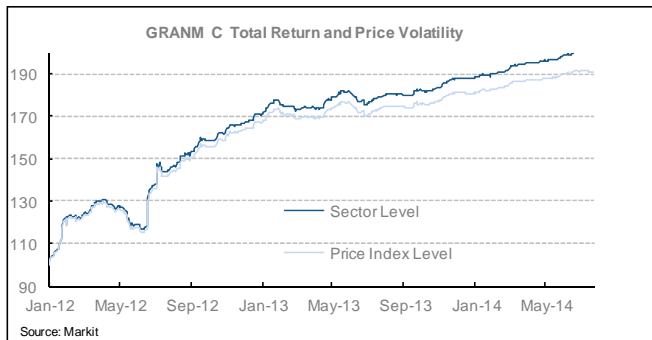
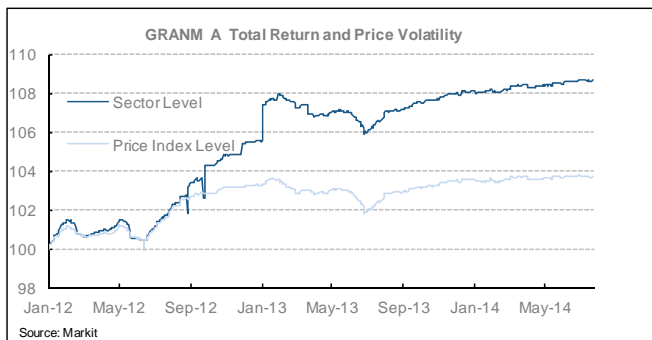
This month saw a dramatic spread tightening in the best in class bonds from the peripheral RMBS universe. Senior Irish, Spanish, Italian bonds are now all trading under a 100bps with Portuguese bonds only marginally above 100. The spread tightening has been mainly due to the leverage and promises by ECB to work a comprehensive ABS purchase scheme.

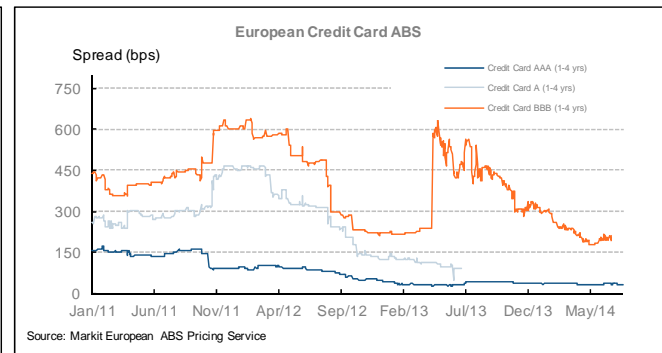
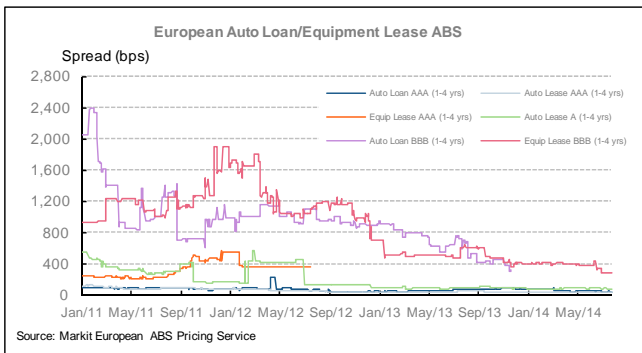
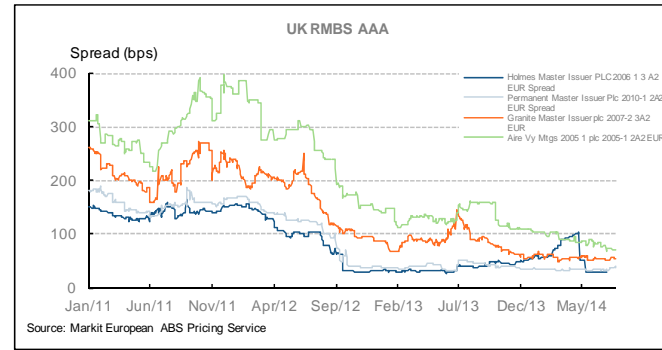
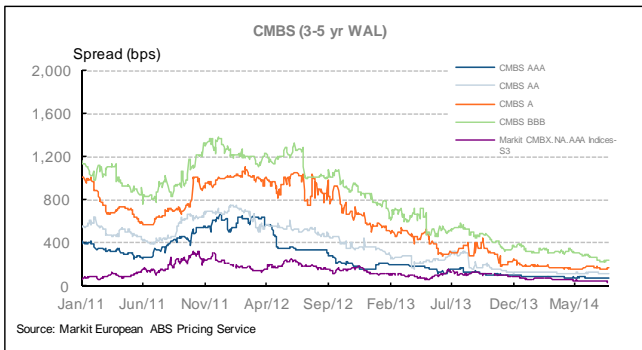
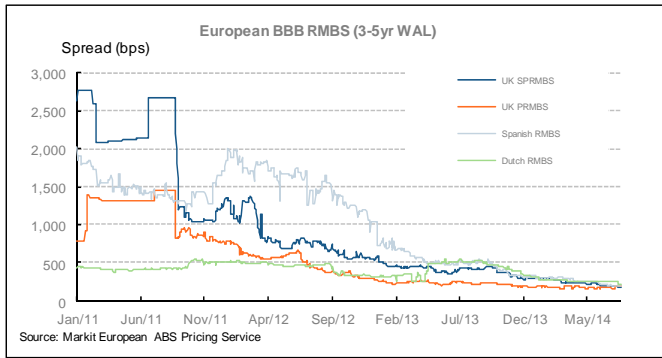
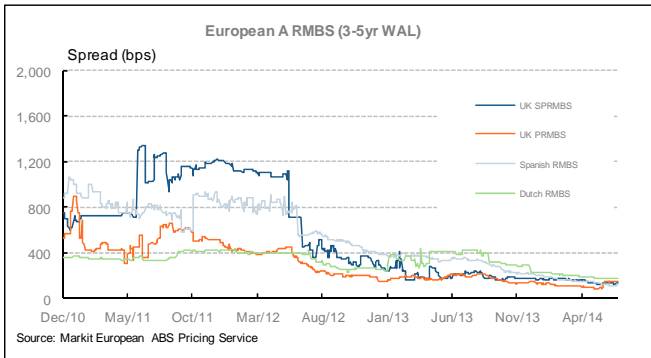
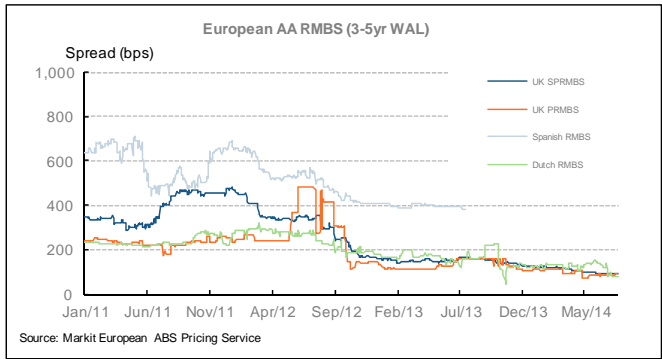
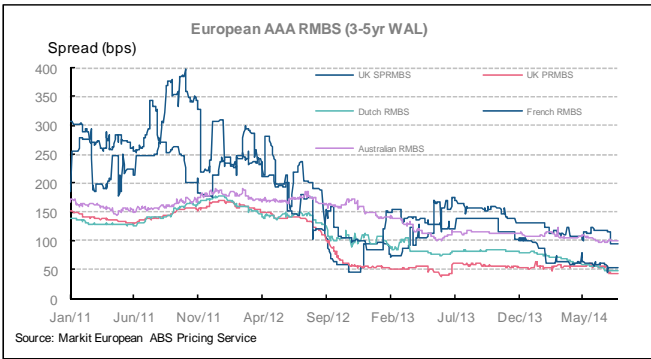
This was a strong month for Italy with issuance across asset classes (Consumer Loan, RMBS, CMBS). It also led the way in convergence of senior and mezzanine RMBS spreads.

The deals backed by Banco Espirito Santo (BES), in particular the Lusitano Mortgages series, traded wider across the capital structure.

The UK Financial stability report strengthened the case for BoE's loan to income ratio cap on mortgage approvals. It claimed that underwriting standards on new issuance have significantly loosened with spread levels at their lowest since 2008 and leverage levels significantly high.

Sector	Spread Mid (bps) Jun2014	Spread Mid (bps) Jul2014
ALL Auto Lease AAA Float (1-4)	47	43
ALL Auto Loan AAA Float (1-4)	36	33
ALL CMBS AAA Float (3-5)	77	69
ALL Credit Card AAA Float (1-4)	33	33
Australia RMBS AAA Float (3-5)	98	100
Italy RMBS AA Float (1-3)	104	97
Netherlands RMBS AAA Float (1-3)	35	34
Spain RMBS AA Float (5-8)	158	128
United Kingdom Granite AAA Float (1-3)	50	53
United Kingdom PRMBS ex. Granite AAA Float (1-3)	34	31
United Kingdom SPRMBS AAA Float (1-3)	111	118





Primary market

The primary market has been quite active in anticipation of quieter summer session.

The largest issuance was in the form of Barclay's UK Credit Card ABS deal BCARD 2014-1. A single placed tranche at €942.2m, priced at a margin of +50bps. Two other deals were issued from the UK, a buy-to-let deal from Paragon at a total placed issuance of €430.8m and Precise mortgages Non-Conforming RMBS issued four placed tranches with the senior tranche priced at +80bps.

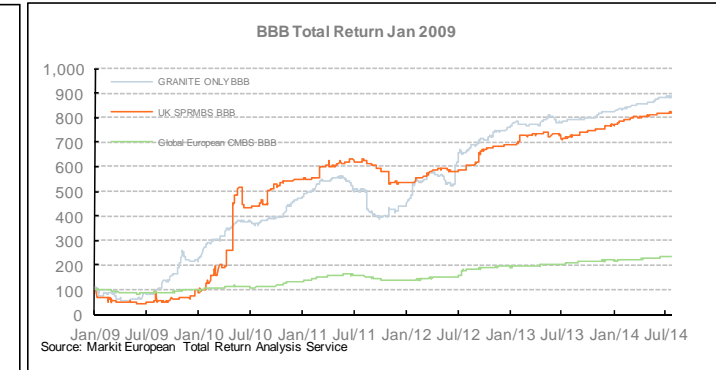
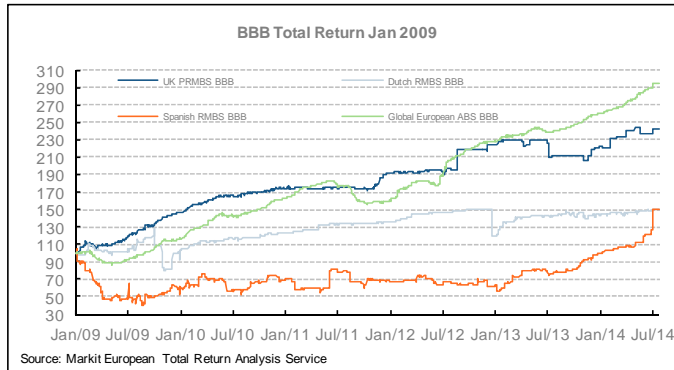
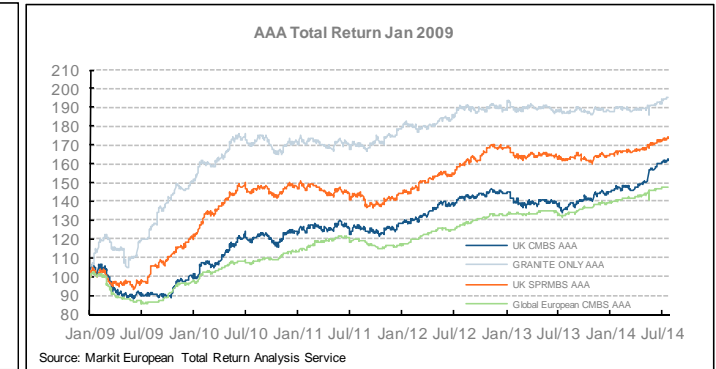
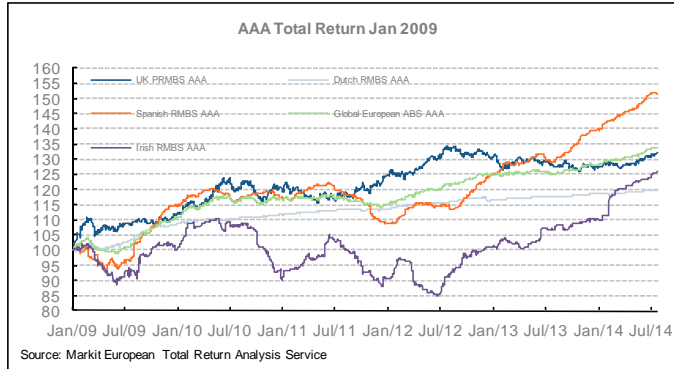
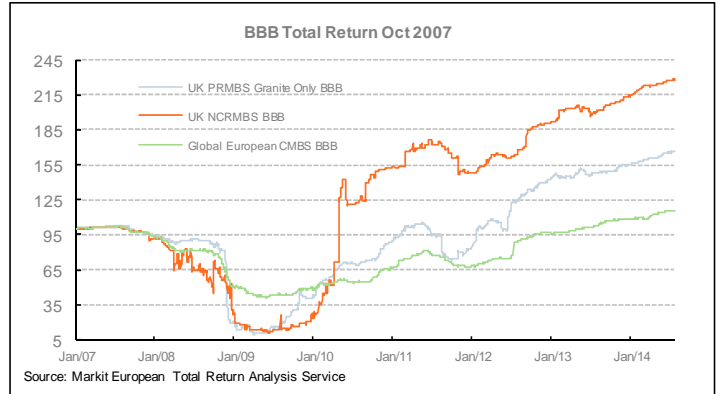
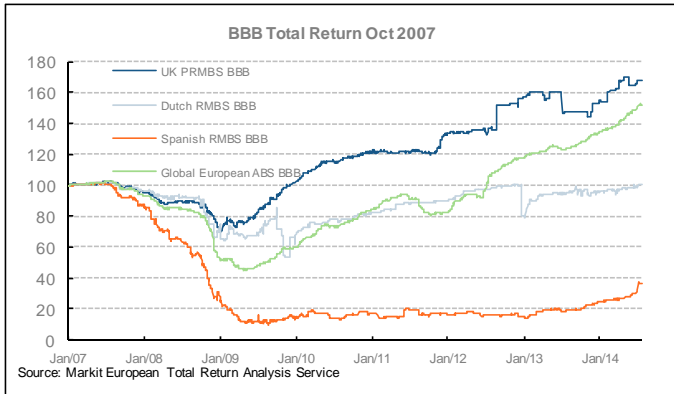
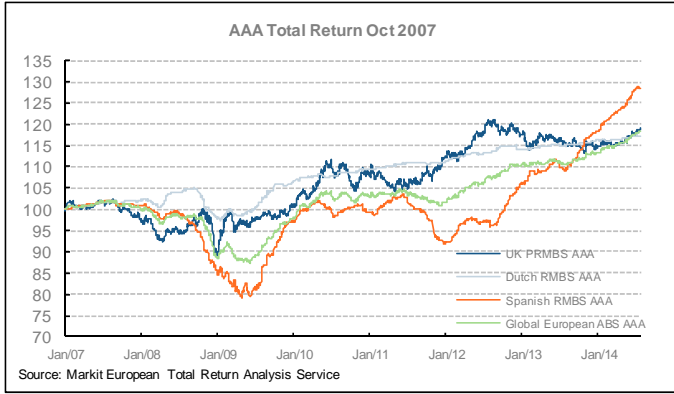
BMW's Bavarian Sky German Auto Loans 2 was the largest issuance from Germany. The second Auto ABS was GMAC's E-Carat 7. IKB Leasing's German Mittelstand Equipment Finance No. 2 issued three placed tranche totalling €227.3m.

Moda 2014 and Deco 2014 both Italian CMBS placed five tranches with the senior at +148bps and +145bps respectively.

In the European CLO primary market we have seen the issuance of three deals, all with six placed tranches. All of these deals have been similar in size ranging from €300m to €350m. The initial margins have been getting wider following the previous month. This is consistent with what we have seen in the issuances of CLOs for the last several months.

Primary Market (Source: Markit RCD)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€m)
Dryden 32	European/ CLO	A1AN	AAA	140	199.3
		B1AN	AA	200	18.4
		CN	A	250	32
		DN	BBB	360	22
		E	BB	480	26
		F	B	555	17
Deco 2014 Gondola	Italy/ CMBS	A	A	145	185
		B	A	175	65
		C	A	210	30.5
		D	BBB	295	52
		E	BB	370	21.9
Phoenix Park CLO	European/ CLO	A1	AAA	135	236
		A2	AA	205	47
		B	A	255	24
		C	BBB	340	23
		D	BB	510	24
		E	B	600	14
Area European CLO VII	European/ CLO	A1	AAA	135	207.4
		A2A	AA	200	23.3
		B	A	245	20.4
		C	BBB	330	14.2
		D	BB	490	28.3
		E	B	550	11.3
Precise Mortgage Funding 2014-1	UK/ NCRMBS	A	AAA	80	250.9
		B	AA	115	12.6
		C	A	140	18.8
		D	BBB	190	6.8
Paragon 20	UK/ BTLRMBS	A	AAA	68	400.7
		B	AA	100	30.1
E-Carat 7	Germany/ Auto ABS	A	AAA	33	325
		B	AA	75	12.4
Bavarian Sky German Auto Loans 2	Germany/ Auto ABS	A	AAA	28	756.9
		B	A	68	43.1
Moda 2014	Italy/ CMBS	A	A	148	145.1
		B	A	190	14.6
		C	BBB	255	17.7
		D	BB	330	3.8
		E	B	410	17
BCARD 2014-1	UK/ Credit Card ABS	A	AAA	50	942.2
German Mittelstand Equipment Finance No.2	Germany/ SME ABS	A	AAA	50	196
		B	AA	100	13
		C	A	135	18.3

European total return



US ABS market

Overview

The month has been rather quiet across Structured Products as the summer mentality has set in. Aside from a large list of Non-Agency bonds, which ended up trading to a dealer, volumes have been subdued.

CLOs

Despite the slowdown in the market and the general sideways spread movement, new issue paper continues to come out, bringing the year to date total to around \$70 billion. More new managers continue to enter the space, but the pricing they receive on their deals does reflect the general market perception of them. New issue AAA spreads, depending on the manager, can range from the low 140s to the 160s.

Non-agency RMBS

Throughout July, Non-Agency RMBS spreads remained firm, showing some tightening in vintage paper. Some of the newly issued bonds experience a slight widening towards the end of the month but only by a few basis points. One large seller in the middle of the month put out a list of over \$3bn in notional, and despite the size it was well received by the market, via an all or none order.

Consumer ABS

Spread changes were generally mixed for the consumer ABS universe in July as the market felt more active than usual, a significant departure from the usual summertime lull. Auto loan prime and subprime senior bonds leaked out wider ranging from +1bp to +3bps depending on issuer while auto loan subordinate bonds were anywhere from -1bp to -4bps tighter. Fixed and floating-rate credit card seniors were anywhere from unchanged to +5bps wider while shorter subordinates tightened -2bps and longer subordinates widened approximately +1bp. Bonds backed by FFELP and private student loan collateral were the outperformers this month with seniors tightening approximately -1bp to -2bps and FFELP subs tightening -20bps and private subs tightening -50bps. Please see the table below for a breakdown across all asset classes:

Generic Spreads by Sector				Subprime Auto Loan			
Prime Auto Loan	WAL	Spread		Subprime Auto Loan	WAL	Spread	
Class A	FIX	0-2	10	Class A	FIX	0-1	21
		2+	21			1+	35
Class B	FIX	0-2	26	Class B	FIX	0-2	41
		2+	42			2+	65

Credit Card				Credit Card			
Class A	FIX	Spread		Class B	FIX	Spread	
Class A	FIX	0-3	16	Class B	FIX	0-3	49
		3+	32			3+	107
Class A	FLT	0-3	11	Class B	FLT	0-3	36
		3+	31			3+	55

FFELP Student Loan				Private Student Loan			
Class A	FLT	Spread		Class A	FLT	Spread	
Class A	FLT	0-5	38	Class A	FLT	0-2	62
		5+	61			2-5	90
Class B	FLT	10+	209	Class B	FLT	5-10	196

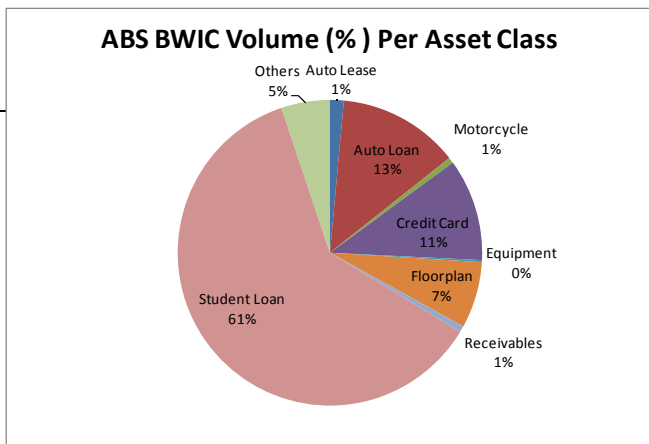
Markit Structured Finance Research

New issuance was down month-over-month with \$9.06 billion coming to market compared to \$15.4 billion in June. Auto issuance was the lowest in 2014 with only \$1.37 billion across two deals hitting the primary market in July compared to \$10.27 billion across 11 deals in June. Please see the table below for a breakdown across all asset classes:

US New Issue ABS*		
Asset Class	Amount (mm)	Number of Deals
Auto	1,370.00	2
Card	2,180.00	4
Equipment	1,050.00	2
Floorplan	2,550.00	4
Other	990.00	4
Student Loan (FFELP)	920.00	3
Student Loan (Private)	-	-
Total	9,060.00	19

*June 18 - July 24

BWIC volume was up considerably in July with approximately \$3.5 billion in consumer ABS bonds out for the bid compared with \$2.99 billion in June. Student loan collateral accounted for over 60% of the overall volume this month while it accounted for only 15% in June. Auto-related BWIC volume was down considerably accounting for only 22% in July compared to 54% in June. Please see the graph below for a breakdown across all asset classes:



Agency

Total CMO Issuance for June was \$14.7 billion. Freddie Mac represented 50% of total issuance, while Ginnie Mae was 32% and Fannie Mae was 18%. A significant portion of Freddie's issuance was backed by HARP and HAMP modified collateral. Most 30-year PACs were issued with 3%–4% coupons, with Ginnie Mae issuing 51% of PACs, Freddie 33%, and Fannie 16%. Ginnie Mae represented 42% of sequential issuance, followed by Freddie with 46% and Fannie 22%. CMO spreads remained unchanged month-over-month and issuance is likely to remain subdued if spreads remain at these tight levels. The market value of daily CMO trading has averaged \$850 million since the beginning of the July.

In Mortgage derivatives land most of the investors are now taking advantage of carry trades. They borrow at a lower rate and buy 5% coupon paying IO/IIO. This trade is currently driving the IO/IIO valuations, and hedge funds remain the key players in this spot.

There is little in the way of IO production as most of the transactions are in call-protected IO papers. These are 3.5% to 4.5% conventional with a decent FICO and loan size. In the PAC IO space yields are in the mid 5% ranges for solid PAC structures, meaning PACs that have stayed with the speeds range that was projected at the creation of the structure. We are also seeing activity in other collateral types such as high LTV 4% coupons, simply because of the HPA protection and the anemic prepayment speeds at which this sector is printing.

A challenging sector continues to be the 5% coupon collateral where prepayments are projected to come in higher in the range of 25 CPR given summer relocation and third party originations.

Third party originators are more aggressive in seeking out people who are more likely to refinance.

In conclusion, we continue to anticipate high coupons to prepay a lot faster compared with their 3% IO Collateral counterparts.

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