Markit Recap – 7/14/2014

THE LEAD | July 15, 2014

Credit spreads in North America and Europe have been trading in a tight range throughout July, with investors waiting to see how earnings season unfolds.

US banks are not the flavour of the month, as expectations were that the poor performance in Q1 would continue into the second-quarter. And so it did, with several banks posting lower earnings compared to last year. But the numbers from Citigroup, JPMorgan and Goldman Sachs weren't as bad as expected. Trading revenues from fixed-income, a notable weak spot for all major investment banks in recent times, held up better than forecast, though they were still down.

CDS spreads for US banks widened during June, but the 'positive' second-quarter results helped trigger a modest rally. Citigroup was trading at 65bps on July 15, while JPM and GS were quoted at 54bps and 74bps respectively. All three names are tighter than where they started the year.

The same can't be said for Banco Espirito Santo (BES). The Portuguese bank has seen its senior CDS spreads widen nearly 300bps to 460bps over the past month amid concerns about its exposure to the Espirito Santo family group. The latter company, which is in financial difficulty and has missed payments on commercial paper, is BES's largest shareholder. A government bailout is a possibility, but some measure of private sector burden-sharing may also be required.

Bank performance, both good and bad, will continue to drive spread direction in the coming weeks. But US monetary policy and Chinese GDP – the latter country reports second-quarter growth figures on July 16 – could be bigger factors.

Contact: Gavan Nolan

Gavan.Nolan@markit.com