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MARKIT RECAP

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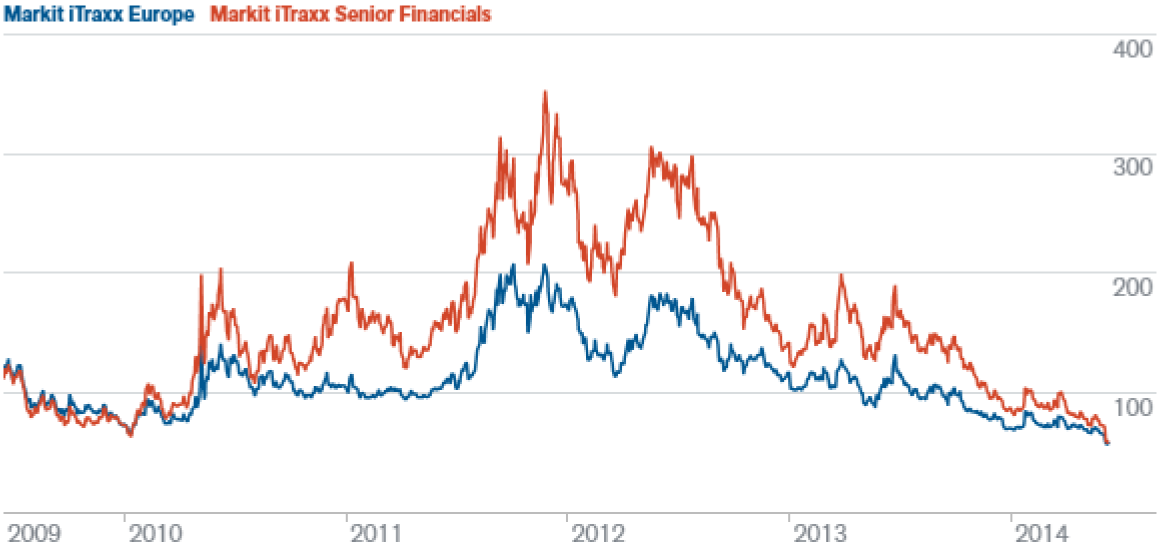

Trading volumes usually fall during the summer, but the decline may start earlier than usual this year. World Cup fever has struck the financial markets, though it has to be said the atmosphere is probably more febrile outside of North America.

If credit quality was an accurate predictor of World Cup success, then England (UK CDS trading at 18bps) would be favourites. Alas, only the hopelessly optimistic would concur with such a status, and it is far more likely that the world's worst sovereign credit – Argentina, trading at 35 points upfront – will emerge victorious. Maybe Spain, whose credit standing has improved dramatically since it won the last World Cup in 2010, will retain the trophy, though it should be noted that the football team won't be able to count on the ECB for assistance.

So, it is not surprise to see the markets take a breather before the world's greatest sporting event and, of course, after the ECB's decisive intervention last week. The credit markets continued to rally at the start of the week, with the Markit iTraxx Europe trading through the Markit CDX.NA.IG, as we predicted last week. However, both indices gave up a modest amount of ground as the week progressed, and closed slightly wider than last Friday's level.

If European investment grade credit has caught up on its North American counterpart, it was also interesting to see that European financial credit has converged on the broader universe. The Markit iTraxx Senior Financials index and the Main index both closed around 60bps on June 12, the first time they have trades at the same level since January 2010. Prior to the financial crisis, It used to be the norm that banks would trade tighter than other sectors.

That all changed with the collapse of Bear Stearns and Lehman, but the recent convergence indicates may indicate that investors are more optimistic about bank capital adequacy and balance street strength than they have been for some time. Alternatively, it could mean that banks will benefit disproportionately from the ECB's unconventional monetary policies.

The low volatility is set to continue next week, though the FOMC press conference on Wednesday could divert attention away from the football.

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