

# Weekly Credit Update

## Summary

- High spread volatility on the back of mixed economic news from the US
- Abating activity in the primary market
- European lending standards are no longer tightened aggressively
- ING forced to split up group

## Headlines from the credit market this week

CDS indices have been volatile during the week on the back of mixed economic news. Highly disappointing US consumer confidence data in the beginning of the week caused a significant spread widening. On Thursday, however, the mood changed with stronger-than-expected US Q3 GDP growth numbers. Furthermore, the GDP growth rate of 3.5% also marked the official end to the US recession. Currently, iTraxx Europe and Crossover trade at 85bp and 502bp respectively and the indices are thus at a slightly higher level compared to last week.

Compared to the frantic activity in the primary market we saw after the summer holiday, activity is more subdued now. In the Nordic region the most interesting transaction was a Tier 1 issue by Nykredit Realkredit. Thereby Nykredit opted to raise hybrid capital privately rather than through the Danish bank package 2.

Table 1. Selected new issues during the week

Name	Rating	Coupon	Maturity	Currency	Size	Bond spread on issue date, (bp)*
Nykredit (Tier 1)	A3/BBB+	Fixed	6Y	EUR	0.9bn	615
Portugal Telecom	Baa2/BBB	Fixed	10Y	EUR	0.75bn	145
Telefonica	Baa1/A-	Fixed	10Y	EUR	1.75bn	110

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

Source: Danske Markets & Bloomberg

## European lending standards are no longer tightened aggressively

The Euroland bank lending survey shows that banks continued to tighten credit standards to both enterprises and households in the third quarter, but not by much. The situation has improved particularly strongly for lending to enterprises. Going forward, the outlook for Q4 is even better. Banks expect a slight net easing of credit standards for enterprises indicating that a turn in the tightening cycle is imminent. Overall, this is welcome news as it shows that European banks are becoming more comfortable with their capital position in relation to the economic conditions.

iTraxx Europe (5Y CDS)



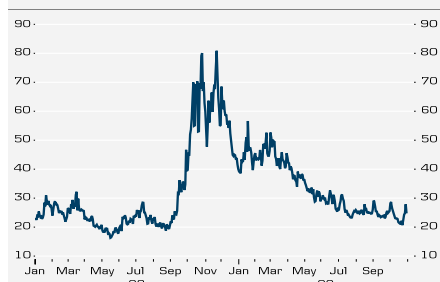
Source: Markit

iTraxx Crossover (Y CDS)



Source: Markit

VIX volatility index



Source: Ecowin Pro

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**ING forced to split up group**

At the beginning of the week, Dutch banking group ING announced a wide-scale restructuring plan that has been agreed with the Dutch Government and the EU Commission. ING will move towards a complete separation of its banking and insurance operations. This will be achieved over the next four years by a divestment of all Insurance operations (including Investment Management). This will imply that the structure of the group will be more simple and that the banking business will be mostly focused on the Benelux. ING will also have to refrain from making acquisitions and is not allowed to be a price leader in any EU country for three years, or until it has repaid the Core Tier 1 securities issued to the Dutch state. The restructuring measures can be seen as the price ING has to pay after it agreed with the Dutch State on an Illiquid Assets Back-up Facility in January this year as well as a capital injection in 2008.

In conjunction with the Restructuring Plan filed with the European Commission, ING has reached an agreement with the Dutch State in order to facilitate early repayment of the core Tier 1 instruments. ING intends to repurchase EUR5bn of the Core Tier 1 securities it has issued to the Dutch state. This will take place in December 2009 and will be financed by an underwritten rights issue.

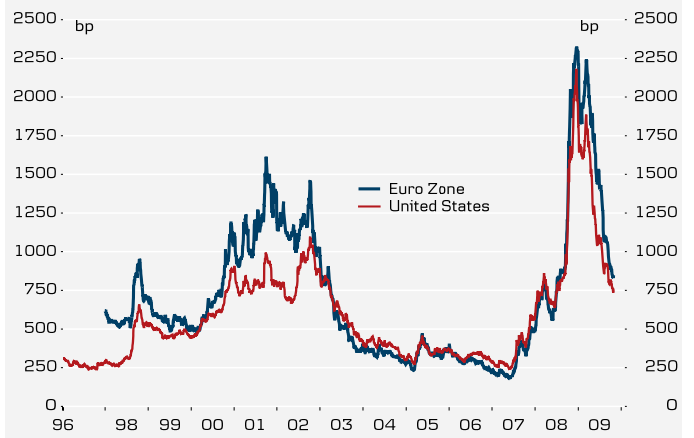
In our view, the case of ING first and foremost illustrates that the EU Commission is not taking the state aid for troubled institutions lightly despite the magnitude of the crisis. This has previously also been illustrated by the introduction of the burden-sharing concept in which banks that have been receiving significant state aid may be instructed not to pay coupons on perpetual debt (note that ING is not subject to burden-sharing at this stage). These actions by the Commission highlight the uncertainty associated to subordinated debt from troubled banks.

US investment grade CDS index (CDX)



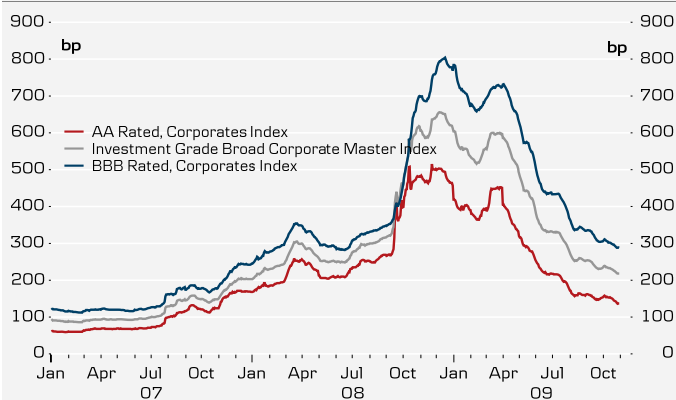
Source: Ecowin Pro

Merrill Lynch US & European high yield cash indices



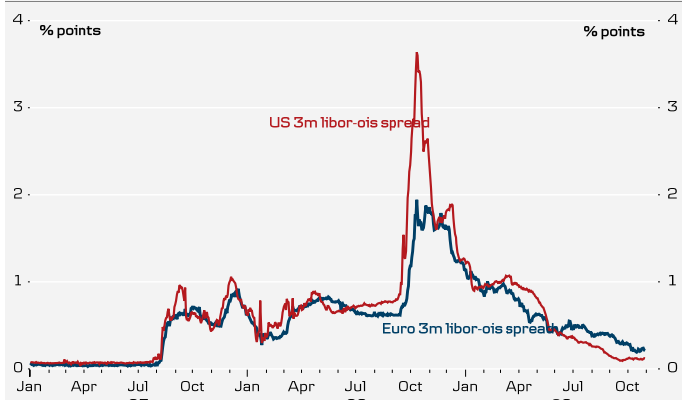
Source: Ecowin Pro

US cash indices



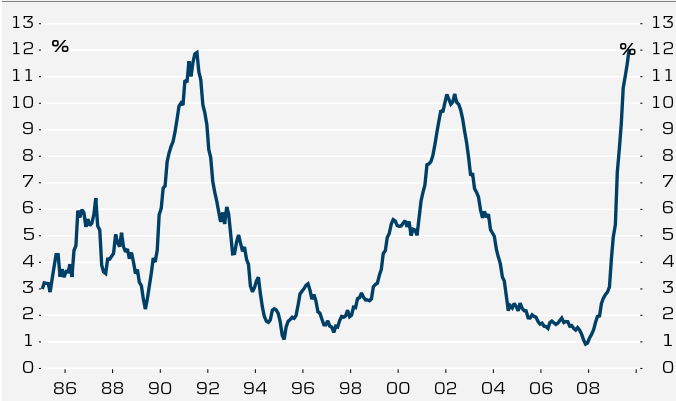
Source: Ecowin Pro

3M LIBOR-OIS spread



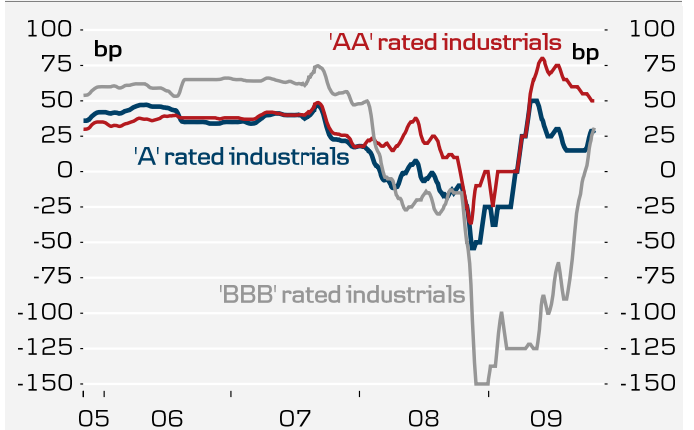
Source: Ecowin Pro

Moody's global speculative default rate (LTM)



Source: Ecowin Pro

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



Source: Ecowin Pro

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