

Weekly Credit Update

Thursday and Friday are bank holidays in Denmark this week so we are publishing the Weekly Credit Update today.

Summary

- The strong sentiment has returned and spreads are moving tighter
- Primary market activity continues to be immense and new issues perform
- We have initiated coverage of Danish utility company DONG Energy

Headlines from the credit market this week

The rally is back in the credit market, fired on by continued high activity and strong performance in the primary market. The investment grade index, iTraxx Europe, currently trades at 123bp down from 133bp on Friday, while the high yield index, iTraxx Crossover, trades at 750bp down from 790bp on Friday. The senior financials index has strongly outperformed the main index in recent weeks and now once again trades at a tighter level (as it should in our view). The good feeling in the market goes hand in hand with lower volatility and the VIX index is currently falling steadily.

The primary market continues to be extremely hot. During the first three days of the week, there have been a large number of new deals including several from the Nordic region. The Danish brewer Carlsberg came to the market with both a EUR and a GBP issue. The bonds tightened by some 40bp after issuance.

iTraxx Europe (5Y CDS)



Source: Markit

iTraxx Crossover (5Y CDS)



Source: Markit

VIX volatility index



Source: iBoxx

Table 1. Selected new issues during the week

Name	Rating	Coupon	Maturity	Currency	Size	Bond spread on issue date, ASW (bp)*
SEB	A1/A	Fixed	3 Y	EUR	t.b.a.	235-240
Carlsberg	Baa3/NR	Fixed	5 Y	EUR	1.0bn	340
Carlsberg	Baa3/NR	Fixed	7 Y	GBP	0.3bn	Govt +435
DnB NOR	Aa1/AA-	Fixed	5 Y	EUR	2.0bn	185
Telefonica	Baa1/A-	Fixed	7 Y	EUR	0.5bn	185
Caterpillar	A2/A	Fixed	3 Y	EUR	0.5bn	325
Telecom Italia	Baa2/BBB	Fixed	8 Y	GBP	0.75bn	Govt +450
EON	A2/A	Fixed	2 Y	EUR	0.75bn	85
Lafarge	Baa3/BBB-	Fixed	5 Y	EUR	1.0bn	512
Barclays Bank	Aa3/AA-	Fixed	5 Y	EUR	3.0bn	270

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

Source: Danske Markets

It is worth noting that we now see several BBB- rated company issues and last week we even saw a high yield issue coming to the market. The new issues from these names are very well bid and spreads are coming in rapidly. Earlier in the crisis the primary market was completely shut for the lower quality names.

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DONG Energy – Initiation of coverage

In connection with the release of the Q1 report from the Danish energy incumbent DONG Energy, we initiated research coverage with an overall Buy recommendation. The Baa1 S/BBB+ S rated group is 73% owned by the Kingdom of Denmark. We see value in the diversified energy profile, some of which is regulated, and strong cash flows. The Q1 result showed reduced earnings due to lower demand and adverse commodity price movements, but credit metrics remained solid. Please refer to our analysis for more details (*DONG Energy – Initiation of coverage, 20 May 2009*).

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