Markit Recap – 6/22/2015

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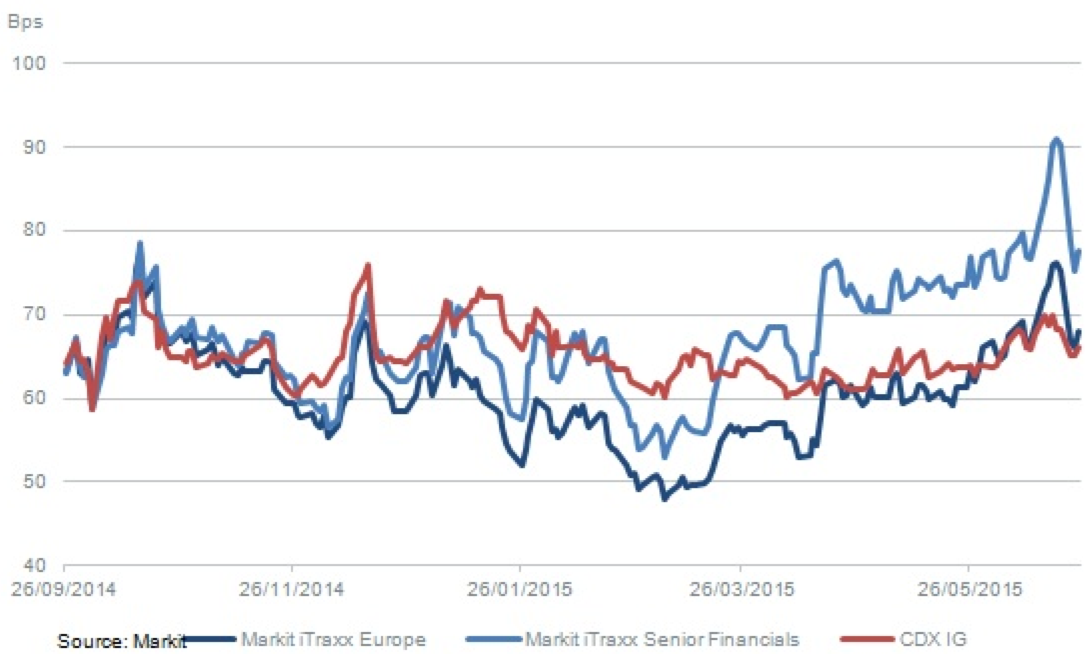
It has been said that Greece's influence within the eurozone seems to outweigh its relatively diminutive size. After all, its GDP is less than 2% of the total in the currency bloc (2014, current prices).

But it is not just in politics that Greece punches above its weight. The performance of the credit markets in recent months has been driven in large part by the changing fortunes of the beleaguered Hellenic Republic. From the beginning of March to June 18, the Markit iTraxx Europe widened by 28bps to 76bps – a large move in the current QE era. Greece's uncertain status in the eurozone made a major contribution to the blow-out.



However, it also played a pivotal role in one of the biggest daily rallies in recent memory. The index tightened from 75bps to 67bps on June 22 amid strong signals that the EU, IMF and Greece were on the verge of a deal that would release the next tranche of bailout funds. This would avert the imminent threat of 'Grexit' and consequent contagion, the main concern of the markets.

The rally in bank credit was even stronger. The Markit iTraxx Senior Financials tightened from 90bps to 78.5bps on the news. Banks and insurers make up 30 of the 125 names in the Markit iTraxx Europe, and the presence of financials – particularly names based in the periphery – has led to European high-grade credit underperforming its US counterpart in recent weeks. A resolution to the Greek problem could see the Markit CDX.NA.IG trading wider than its European equivalent – the state of affairs before Greece flared up.

But at the time of writing it was by no means certain that a deal will be agreed. There have been many false dawns in this Greece saga, and it is clear that there are considerable obstacles to overcome. Greek prime minister Alexis Tsipras has only a small parliamentary majority, and there are elements within the ruling SYRIZA party that have already stated their opposition to the proposal put forward by Tsipras. Even if these hurdles can be overcome, a deal is unlikely to provide a long-term solution. Don’t expect ‘Grexit’ to be banished forever.

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