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Markit Recap – 10/10/2016

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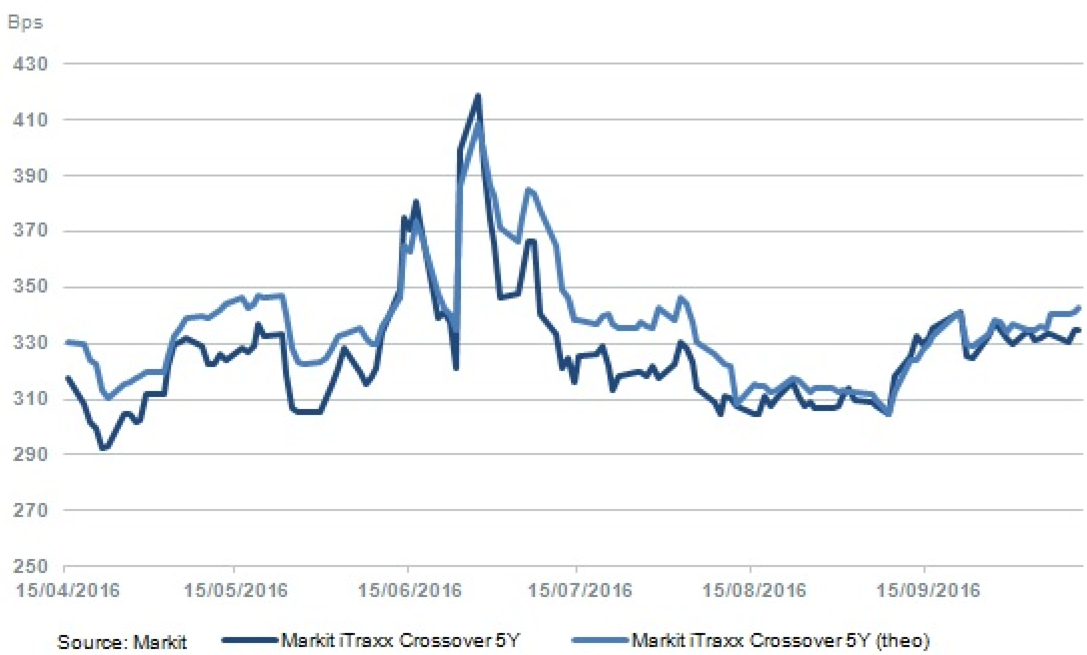
The CDS market in September is typically dominated by one event: the semi-annual roll. The outperformance of single names observed during August was maintained in the run up to the roll on September 20, with the skew between the Markit iTraxx indices and their theoretical levels all but eliminated.

However, it was business as usual after the roll – the skew on the iTraxx Europe was back to 5bps by month-end and on the Crossover it was 7bps, both seeing single names trading wider than indices.



Spreads ended the month on a negative note, driven by financials. Concerns over Deutsche Bank's future, in particular the threat of a CoCo triggering due to the large fine imposed by the US Department of Justice, led to bearish sentiment affecting the whole sector.

Deutsche's senior five-year spreads closed at 251bps on September 26, 156bps wider than where it started the year. If this wasn't bad enough, the closing level was 5bps wider than Glencore, leaving Deutsche as the widest name in the iTraxx Europe.

Deutsche's problems had a knock on effect on European insurers, which dominated the list of worst performers in September. The sector is already struggling with ultra-low or negative interest rates, a trend that shows no sign of changing.
Retailers were well represented in North America's worst performers, perhaps a reflection of impending US interest rate rises. Monetary policy in the US and Europe is clearly moving in different directions, and this will

no doubt have a bearing on relative movements in the CDS market.

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