

European Securitized Products Weekly

Two Waiting Games: Peripherals and CLOs

- **New CLO Plans Despite Low Loan Issuance** — A slight uptick in institutional loan tranche issuance will do little to feed the flood of newly announced deals. Managers' access to the new issues will be key for ramp-up, and equity investors should try to benefit from tight liability spreads and managers' ability to make trading gains.
- **Healthy Prepayments and Wider Spreads Support Legacy CLO Bonds** — Though problems with legacy credits as Vivarte and PHS still occur in Euro CLOs, an unexpected rise in loan prepayments and a spread pick-up over US deals strengthen the case for senior-mezz Euro CLO 1.0 investments.
- **Outperformance in Some Peripherals Should Continue** — Fitch's recent report on the peripheral Eurozone recovery points out that, despite caution in the medium term, more upgrades are possible in a scenario of 'economic recovery and declining debt'. Ireland, Portugal, and Spain have the most potential for upgrades in its view.
- **Buy Spanish and Irish RMBS Seniors on Upgrade Optimism** — The potential for these bonds to achieve LCR rating thresholds, post any sovereign upgrades, combined with a 30-40bp cheapness to sovereigns, recommends them to us.
- **New UK Non-Conforming and Italian RMBS Illustrates ABS Appetite** — Two different motivations — lack of alternative funding sources, and regulatory push — are behind the two newly announced deals and will be welcome news for investors looking to buy bonds in a shrinking ABS market.

Global Securitized Products Research

Mary E Kane
+1-212-816-8409
mary.e.kane@citi.com

European Securitized Products

Ratul Roy
+44-20-7986-9003
ratul.roy@citi.com

Himanshu Shrimali, CFA
+44-20-7986-6151
himanshu.shrimali@citi.com

Abhishek K Tiwari
+91-22-4277-5173
abhishek.kumar1.tiwari@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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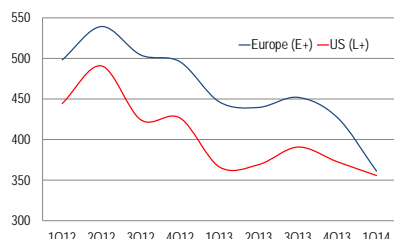
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New CLO Deals, but Value in Old too

Recently announced deals

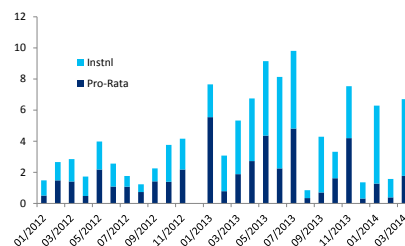
After a quiet quarter which saw about €3 billion of Euro CLO issuance (approximately a tenth of what was issued in the US), the last couple of weeks have seen several launches. Price guidance on Oaktree Capital Management's first European CLO was announced with price talk of the first-, second- and third-pays at 145bp, 200bp₁ and 260bp respectively, according to Capital Structure. Prior to this, the most recent pricing had been in mid-April for a deal managed by Alcentra, which paid coupons of 135bp, 192bp₁ and 258bp respectively on the three tranches. Avoca Capital also just priced their Avoca CLO XI with the first-, second- and third-pays at 140bp, 200bp₁ and 260bp respectively. Other deals in the pipeline are deals to be managed by Apollo, Carlyle, Ares, Babson₁ and New Amsterdam Capital.

Figure 1. Single-B rated Loan Spread, bp, in US and Europe



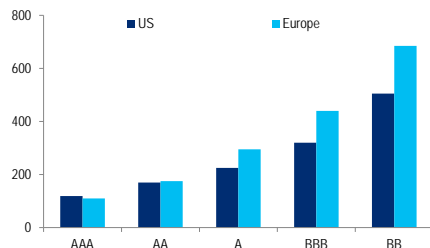
Source: S&P LCD

Figure 2. Leveraged Loan Issuance, billion in local currency



Source: S&P LCD

Figure 3. CLO 1.0 spreads



Source: Citi Research

Where are the Loans?

Leveraged loan issuance has been spotty and has become expensive, with the much discussed pick-up in spreads between US and European loans having almost disappeared (Figure 1). Moreover, overall issuance in the first quarter of 2014 is down compared to the same time last year. February was a weak month, and even March's figures were helped by one large loan — with one €2 billion term loan from Dutch cable company Ziggo. The one thing that is helping the CLO market is the fact that the proportion of total loan issuance that is being placed in the institutional market is at an all-time high (Figure 2). Demand from CLOs has also led issuers to demand more aggressive terms. In addition to spread compression, leverage, and documentation have also suffered, with the leverage multiples higher in 1Q14 than in full-year 2006.

The silver lining is that the pipeline is picking up. According to LCD, there is a mix of recaps, refinancings₁ and some new business. The biggest new issue is Numericable but other names, such as a Mauser buyout, Diana, CarTrawler, Eddie Stobart, Synsam, Callcredit₁ and Diaverum, would all bring diversity to the market. Moreover, the second-lien market is also seeing a pick-up in volumes. The first three months of 2014 have already produced €510 million of new deals in contrast to 2013 full-year issuance of €120 million.

Value in Old Deals

While new deals bring greater credit enhancement ([European ABS 2014 Outlook – Euro CLOs, Different Spots](#)) than CLO 1.0s, and even relative to US deals, old deals look attractive on spread grounds. As Figure 3 shows, Euro CLO 1.0 mezz trades wide to US CLOs. Moreover, there is optionality created by loan prepayment.

Many CLO buyers assume that loan prepayment rates are at the low levels seen just after the financial crisis (implying a higher average life for the bond) but, in fact, repayment rates have been running at an annualized 20-30% rate driven by a slug of bond-for-loan refinancings. Moreover, many CLOs are unable to reinvest the proceeds because of average life constraints and are paying down senior tranches. Our research shows that first-pay bonds of 2006 vintage deals, for example, have a median bond factor of less than 60%. As deals delever, the senior mezz will see more enhancement as a percentage of their balance. Against that junior bond holders must balance adverse credit migration in many legacy portfolios, most recently visible in the case of Vivarte.

Dealing with Legacy Credits

Euro CLOs, even new ones, have to deal with legacy credits. Euro CLO 1.0s already contained them, and CLO 2.0s have to buy them because of the lower diversity in the new issue market. When Vivarte defaulted earlier this year, many CLO 2.0s contained the credit. On the positive side, there is more new money available in the Euro distressed sector even though the new money will likely want a greater equitisation of existing bank loan debt. According to Capital Structure, the ad-hoc committee leading the Vivarte restructuring have put their own proposal forward. The current proposal is supported by €500 million of new money and will restate €800 million of debt while converting the remainder into ORAs (Obligations Remboursable en Actions). Up to 20% of the post restructuring equity would go to the new-money providers and the remainder to senior lenders. Originally, ten such proposals were tendered by parties and seven were short-listed. Under the current timetable the preferred proposal is due to be selected and formally tabled by 6th June with the aim of collecting the responses by the third week of June.

However, there are other distressed credits in tow. PHS Group recently secured forbearance from around 55% of its debtholders to 23rd May but was unable to secure the two-thirds majority for a waiver of a recent leverage covenant breach in December 2013. A similar event had happened to Vivarte which was unable to secure the required majority. The silver lining is that, with the 55% voting for forbearance, enforcement action from a two-thirds majority is unlikely. Other credits, namely Autobar, Preem, and APCOA Parking, have, unlike, PHS secured extensions to their covenant waivers, according to Capital Structure. Autobar secured more than the two-thirds lender consent required to defer its March covenant test from 15 May to 30 June 2014, by which time it hopes to finalize a long-term capital structure. APCOA Parking secured a further 3-month extension till 25th July to continue restructuring talks. Preem secured an extension till 30th June from 31st May while talks to secure a covenant waiver for the rest of this year continue. Both Autobar and PHS occur frequently in Euro CLOs, especially the former, with several CLOs having up to €12 million of the credit as of end March 2014, according to Intex.

Fitch Points to A Few Sovereigns Remain with Peripherals

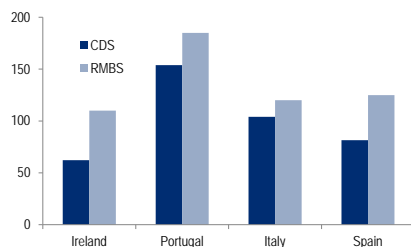
Figure 4. Sovereign Rating Evolution

	Pre-crisis	Lowest	Current
Austria	AAA/	AAA/	AAA/
Belgium	AA+/	AA/	AA/
Cyprus	AA-/	B-/	B-/
Estonia	A/	BBB+/	A+/
Finland	AAA/	AAA/	AAA/
France	AAA/	AA+/	AA+/
Germany	AAA/	AAA/	AAA/
Greece	A/	RD	B-/
Ireland	AAA/	BBB+/	BBB+/
Italy	AA-/	BBB+/	BBB+/
Latvia	BBB+/	BB+/	BBB+/
Lux'bourg	AAA/	AAA/	AAA/
Malta	A+/	A/	A/
N'lans	AAA/	AAA/	AAA/
Portugal	AA/	BB+/	BB+/
Slovakia	A/	A+/	A+/
Slovenia	AA/	BBB+/	BBB+/
Spain	AAA/	BBB/	BBB+/

Source: Fitch

Peripheral RMBS had been one of our top beginning-of-year calls ([European ABS 2014 Outlook](#)), which we still stuck with after the end-February Spain upgrade ([European Securitized Products Weekly: Moody's Spain Upgrade Precursor to RMBS Ratings Rise](#)). Fitch's recent report¹ makes us aware that despite the powerful rally to date, there could still be upside with some peripheral credits. Key to our belief is the strong correlation between sovereign and RMBS spreads within peripheral jurisdictions, and the upside which sovereign upgrades can have on making certain ABS even eligible for regulatory measures such as LCR. Though broad problems, such as large budget deficits, high external debt, weak banks, low growth prospects, and high unemployment, continue with most peripheral countries and argue for caution, there is upside potential too. For Fitch to consider more upgrades, it would need to see more progress in a reduction in budget deficits and public debt ratios, as well as improvements in secure market access, domestic banking systems, and external and private debt ratios. Improvements in some of these areas are already happening, in our view, with evidence of successful bond offerings, more bank deleveraging, and improvements in sovereign current account surplus (all of which have helped recent rating improvements) though more will be presumably needed for further rating improvements. Among the various sovereigns, Fitch points to Ireland, Portugal, and Spain as having the greatest medium-term potential for multi-notch rating recoveries in a benign scenario as their ratings fell further in the crisis relative to countries such as Italy.

Figure 5. Senior RMBS spread versus Sovereign CDS, bp



Source: Citi Research

Ireland and Spain Underpriced to Sovereigns

Among the shortlist of countries with the most upside (precisely because of the rating level to which they fell), Spain ([Spanish RMBS - Rain in Spain... But Sunny on Many RMBS](#)) and Ireland ([Dublin' Up - The €200bn Irish Real Estate Case for the Patient Buyer](#)) RMBS look the most attractive based on the discount to sovereign spreads (Figure 5). Moreover, the higher rating of Spain and Ireland, relative to Portugal, make them better candidates to reach LCR eligibility. As we discussed in greater detail last week following the Basel Committee's FAQ on the LCR framework ([European Securitized Products Weekly](#)), there is an implied (but permissible, in our view) difference between the EBA's proposal from December 2013 and the Basel guidelines. EBA did not mention any LTV requirement, which Basel initially did. EBA did, however, use a lower double-A minus rating threshold than Basel's double-A framework. A lower rating threshold would mean that any sovereign upgrade would bring peripheral RMBS more quickly into the LCR category. Moreover, even if the LTV requirement was added, peripheral RMBS would not be at a disadvantage since pools were typically below a 80% LTV at the time of closing of the deal. There are quite a few Spanish and Irish RMBS with a single-A rating which stand to benefit from any sovereign rating uptick to move into a double-A rating category.

Figure 6. Ratings breakdown of placed Spanish and Irish RMBS, millions

	Spain	Ireland
Double A	1082	486
Single A	18456	460
Triple B	12213	1288
Double B	6271	3462

Source: Citi Research

¹ Eurozone Periphery: Rating Recovery Potential, Fitch Ratings, 6 May 2014

New RMBS Highlights Specific Issuer Needs

The two new RMBS continues to illustrate the theme of issuer motivation to use RMBS for financing versus covered bonds or even unsecured debt ([New UKNC RMBS Helps Buyer and Seller](#)). As with last week's Moorgate Funding 2014-1 deal, Newstone Mortgage Securities No. 1 securitizes seasoned UK non-conforming mortgages. The deal is backed by a pool of mortgages bought by UniCredit unit Redstone Mortgages from Beacon Homeloans. Some 38.73% of the portfolio is self-certified and 4.36% of the borrowers have been subject to county-court judgements. However, we do not believe that the deal is as efficient from a regulatory perspective as the Moorgate deal, since Unicredit can still have some exposure. Noteholders can exercise a put option which requires UniCredit to indirectly purchase the notes at a price equal to the current principal balance plus accrued interest less any amounts in the principal deficiency ledger.

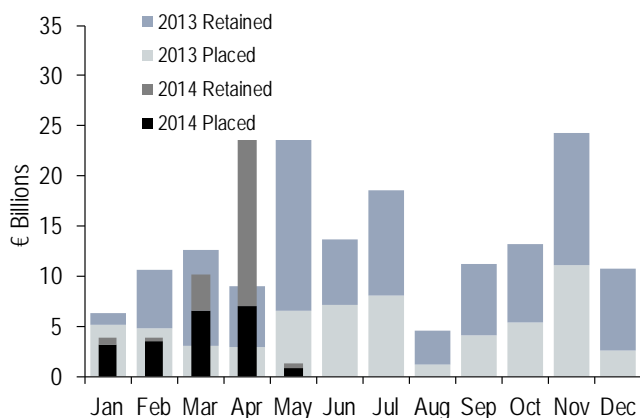
Another RMBS deal from an Italian entity (though this time with Italian, rather than UK, mortgages) in the pipeline is one from Banca Popolare di Vicenza (BPVi). The transaction is expected to be a similar size to the €900 million previous deal in the series, which closed in December 2012. The new trade is expected to pool mortgages originated by BPVi and its subsidiary Banca Nuova SpA, as the previous two did, according to IFR.

We believe both deals illustrate the greater readiness for Italian banks to access the ABS markets based on greater pressure from regulators to show less reliance on ECB funding. They may also show the lower appetite for lower-rated bank risk by unsecured and covered bond investors.

A very different deal, Chestnut Financing 2014, from Swiss private bank EFG, securitizes a relatively non-granular portfolio of larger UK residential mortgages to high net-worth individuals. The properties are primarily in and around London. However, the deal can bring little capital relief to the originator — senior notes are guaranteed by the originator's parent company, EFG International AG — and is primarily used to get wholesale funding efficiently.

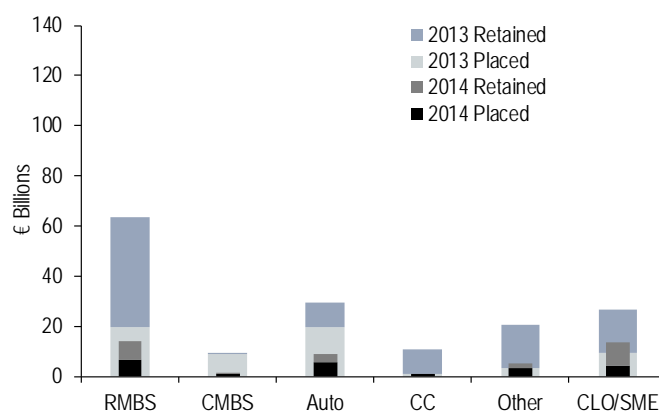
New Issuance

Figure 7. Placed and Retained Issuance by Month, 2013–2014YTD (€ billions)



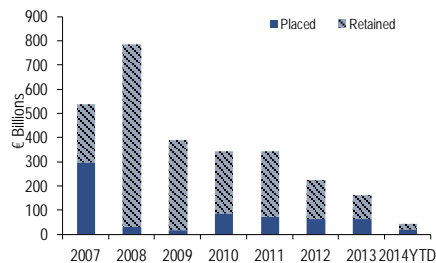
Source: Concept ABS, IFR, Informa and Citi Research

Figure 8. Placed and Retained Issuance by Sector, 2013–2014YTD (€ billions)



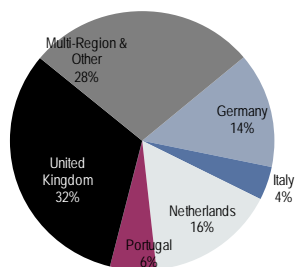
Source: Concept ABS, IFR, Informa and Citi Research

Figure 9. Annual Historical Placed and Retained Issuance, 2007–2014YTD (€ billions)



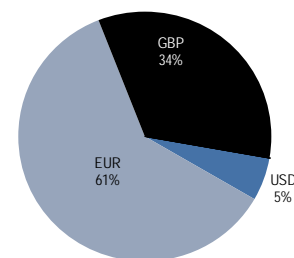
Source: Concept ABS, IFR, Informa and Citi Research

Figure 10. Placed Issuance by Region, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 11. Placed Issuance by Currency, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 12. Placed and Retained Issuance by Sector, 2013* and 2014YTD (€ million)

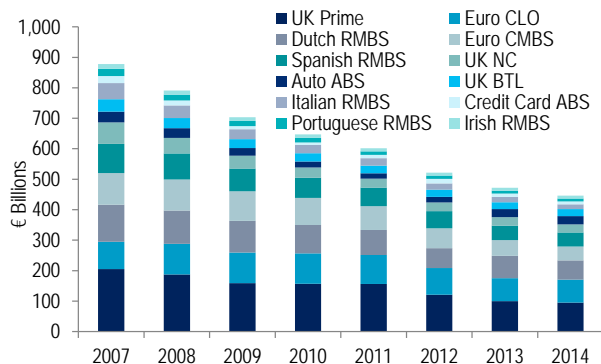
	RMBS(MM)		CMBS(MM)		Autos(MM)		Credit Card ABS(MM)		CLO/SME(MM)		Other(MM)		Total(MM)	
	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013
Placed	6,706	19,507	905	9,081	5,603	19,825	780	1,122	3,975	9,250	3,080	3,336	21,050	62,120
Retained	7,071	44,189	611	202	3,351	9,465	-	9,650	9,709	17,383	2,050	17,147	22,793	98,036
Total	13,777	63,696	1,517	9,282	8,954	29,289	780	10,772	13,685	26,633	5,131	20,483	43,843	160,156

* 2013 complete year

Source: Concept ABS, IFR, Informa and Citi Research

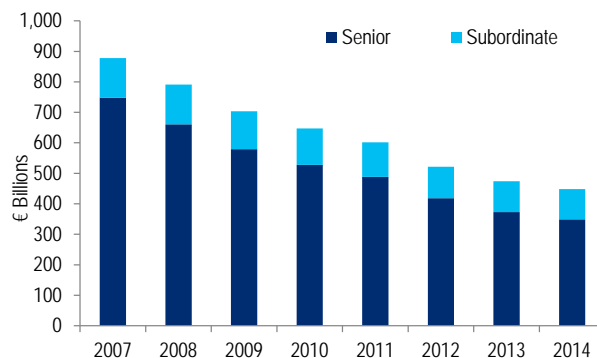
European ABS Outstanding and Technicals

Figure 13. European Securitized Products Outstanding Balance by Sectors, 2007 – 2014 (€ eq billion)



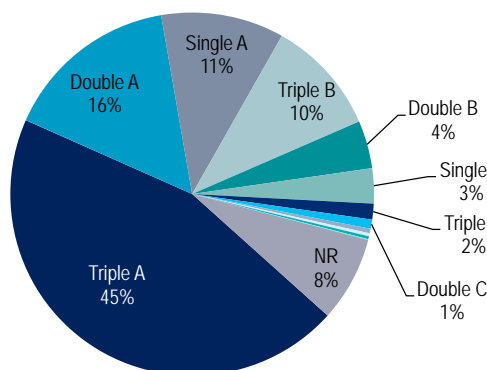
Source: Bloomberg, INTEX and Citi Research

Figure 14. European Securitized Products Outstanding Balance by Senior and Subordinate Notes, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

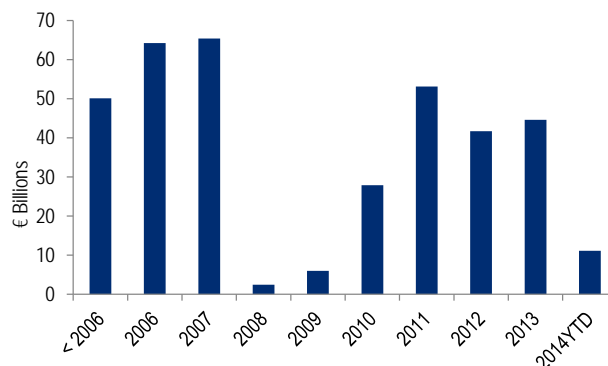
Figure 15. European Securitized Products* Current Placed Outstanding by Rating#



#Bloomberg composite rating, *Excludes Euro CLO

Source: Bloomberg, INTEX and Citi Research

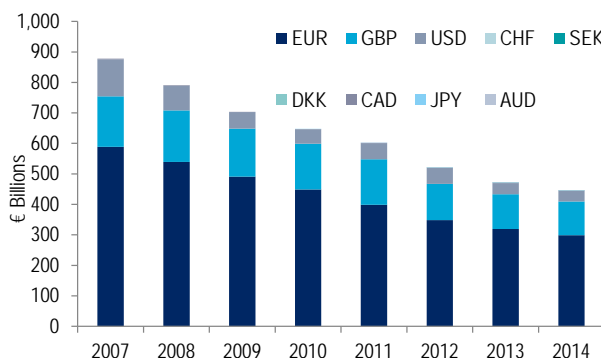
Figure 16. European Securitized Products* Current Placed Outstanding by Vintage (€ eq billion)



*Excludes Euro CLO

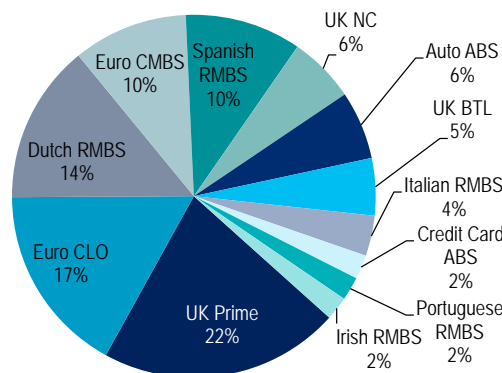
Source: Bloomberg and Citi Research

Figure 17. European Securitized Products Outstanding Balance by Currency, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

Figure 18. European Securitized Products Current Placed Outstanding by Sector

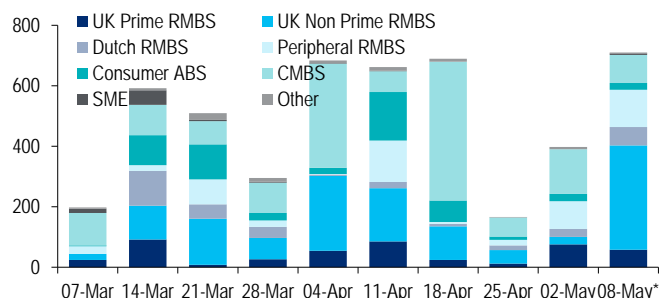


Source: Bloomberg, INTEX and Citi Research

BWIC Tracker

Weekly and Monthly BWIC Volume

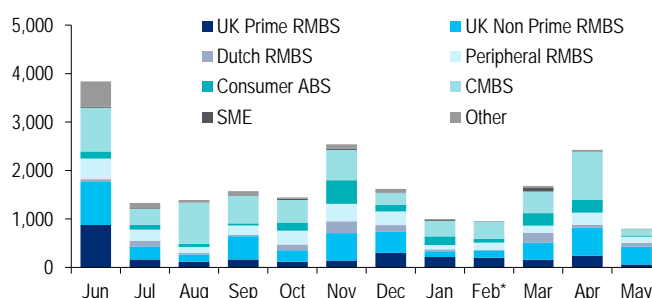
Figure 19. Weekly BWIC Volume by Sector, Mar 2014–May 2014* (\$ eq. million)



* Data until 08 May

Source: Citi Research

Figure 20. Monthly BWIC Volume by Sector, Jun 2013 – May 2014 (\$ eq. million)

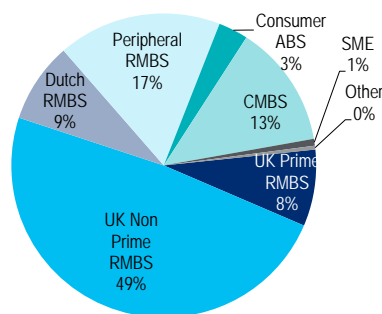


* Data until 08 May

Source: Citi Research

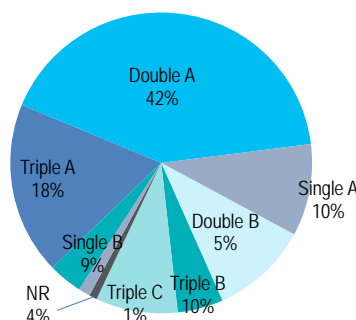
Last Week's BWIC Distribution by Sector, Rating and Currency

Figure 21. BWIC Volume Distribution by Sector, 02 May – 08 May 2014 (%)



Source: Citi Research

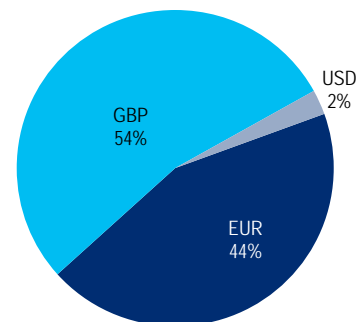
Figure 22. BWIC Volume Distribution by Current Rating*, 02 May – 08 May 2014 (%)



* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

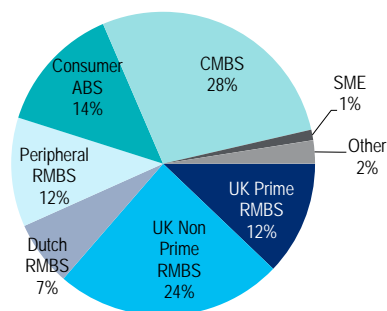
Figure 23. BWIC Volume Distribution by Currency 02 May – 08 May 2014 (%)



Source: Citi Research

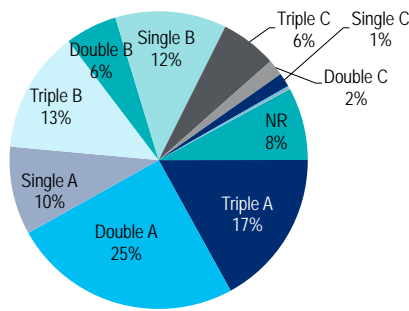
YTD BWIC Distribution by Sector, Rating and Currency

Figure 24. BWIC Volume Distribution by Sector, 2014YTD (%)



Source: Citi Research

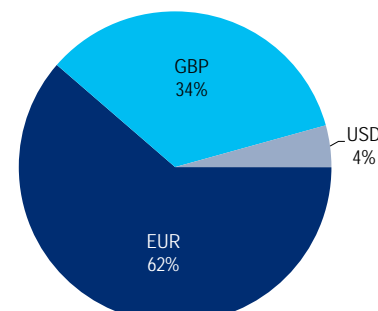
Figure 25. BWIC Volume Distribution by Current Rating*, 2014YTD (%)



* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

Figure 26. BWIC Volume Distribution by Currency, 2014YTD (%)



Source: Citi Research

Figure 27. BWIC Volume and Number of Bonds by Sector and Current Rating*, 02 May – 08 May 2014 and 2014 YTD

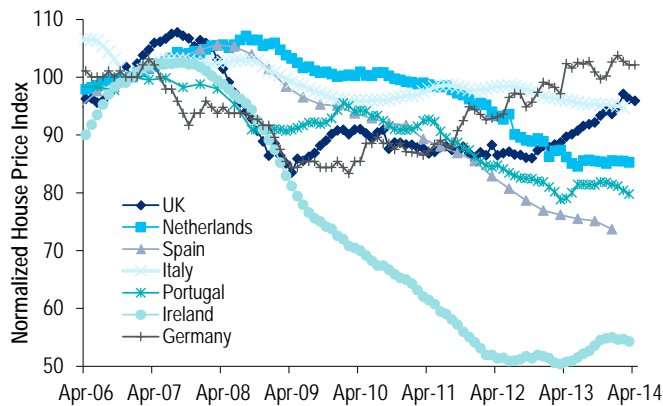
Sector	Rating*	YTD			
		Volume (MM USD EQ)	Number of Bonds	Volume (MM USD EQ)	Number of Bonds
UK Prime RMBS	Triple A	25.9	10	319	121
	Double A	25.9	5	412	189
	Single A	-	-	54	17
	Lower and Not Rated	6.0	1	90	17
	Total	57.8	16	875	344
UK Non Prime RMBS	Triple A	44.4	2	131	19
	Double A	256.3	20	1,004	95
	Single A	8.4	1	115	30
	Lower and Not Rated	36.1	4	320	59
	Total	345.2	27	1,570	203
Dutch RMBS	Triple A	53.8	3	365	83
	Double A	-	-	5	3
	Single A	6.8	2	19	9
	Lower and Not Rated	-	-	3	2
	Total	60.5	5	391	97
Peripheral RMBS	Double A	1.6	3	56	15
	Single A	16.7	3	73	23
	Triple B	40.8	6	262	39
	Double B	-	-	14	6
	Single B	42.1	8	163	19
	Triple C	6.0	1	47	8
	Lower and Not Rated	16.1	2	145	22
	Total	123.2	23	760	132
CMBS	Triple A	-	-	9	2
	Double A	-	-	115	12
	Single A	35.1	3	319	48
	Lower and Not Rated	57.8	4	1,791	237
	Total	92.9	7	2,234	299
Consumer ABS	Triple A	6.4	1	324	146
	Double A	8.1	2	80	17
	Single A	1.0	2	13	18
	Lower and Not Rated	7.0	1	392	41
	Total	22.4	6	810	222
SME	Double A	2.5	2	15	8
	Single A	2.1	3	31	8
	Triple B	-	-	1	1
	Double B	-	-	8	2
	Single B	-	-	12	3
	Lower and Not Rated	0.6	1	30	6
	Total	5.2	6	97	28
Other	Triple A	1.1	1	18	24
	Double A	1.8	1	20	12
	Single A	-	-	33	13
	Triple B	-	-	19	5
	Double B	-	-	13	3
	Single B	-	-	1	1
	Triple C	-	-	-	-
	Lower and Not Rated	-	1	20	7
	Total	2.9	3	123	65
Grand Total		710.2	93	6,859	1,390

* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

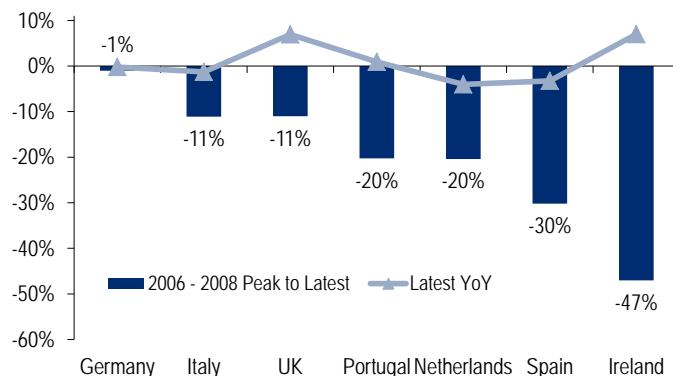
Housing Markets and Mortgage Lending

Figure 28. Normalized House Price Indexes, Apr 06 – Apr 14 (Dec 2006 = 100)



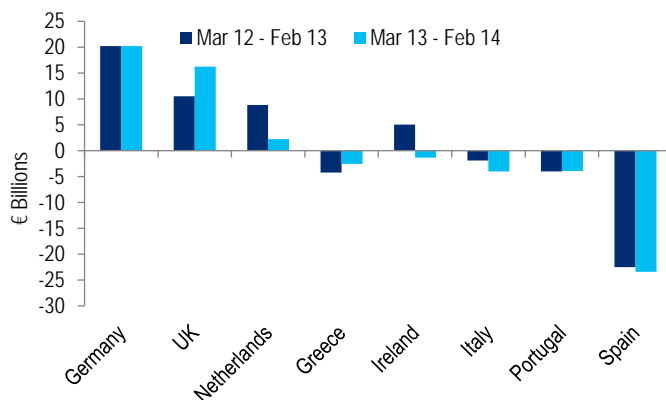
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 29. Euro Area 2006 – 2008 Peak to Latest House Price Change and Latest Y-o-Y Change



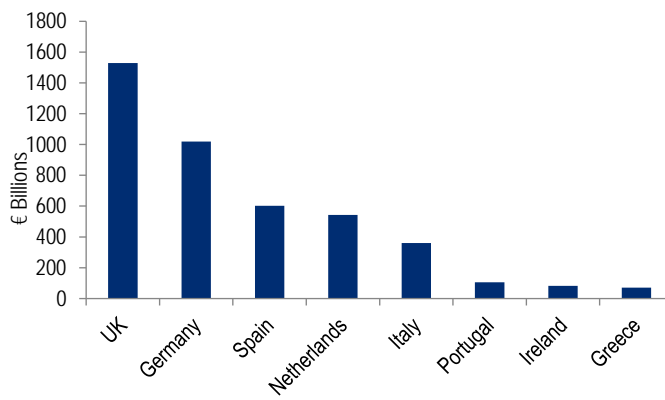
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 30. Net lending Rolling Year Totals (€ eq billion)



Source: ECB, BOE and Citi Research

Figure 31. Outstanding Mortgages as of Feb 2014 (€ eq billion)



Source: DNB, BOE, ECB and Citi Research

Figure 32. Recent Housing News and Market Data Releases

Country	Indicator	Period	Current Value	Y-o-Y	2005 - 2012 Peak to Current	Comment
UK	Halifax House Price Index	Apr-14	177,648	8.5%	-11.0%	House prices increased by 8.5% year-on-year in April although on month-on-month basis, prices decreased by 0.2%.
UK	RICS Housing Market Survey	Apr-14	54%			RICS seasonally adjusted house price balance retreated to 54 from 57 in previous month. It is still close to last November's 11-year high of 58.

Source: Halifax, Bloomberg and Citi Research

CMBS Loan Tracker

Figure 33. CMBS Loan Update

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
8-May-2014	TAURS 3	Walzmühle Loan	€39	48.0%	Updated Valuation	The valuation of Walzmühle Property has been determined at €36,760,000 as of 26 March 2014.
6-May-14	TAURS 2007-1	Fisherman JEC loan	€134	62.2%	Event of Default	The loan has become a specially serviced loan after request to start pre-insolvency procedures.
6-May-14	TITN 2006-5X	Carat park shopping centre Loan	€20	5.4%	Updated Valuation	An updated valuation of Carat park shopping centre property is estimated at €15,400,000 in April 2014. The increase of €600k from 2013 valuation can be attributed to change in market sentiment.
6-May-14	TITN 2005 CT1X	Jubilee Way loan			Disposal Proceeds	The special servicer confirmed the sale of assets behind Jubilee Way Shopping Centre loan. Net disposal proceeds of £771,175.53 will be used for distribution to noteholders in April IPD.
6-May-14	DECO 2006-E4X	Lubeck Loan	€14	4.1%	Standstill Extension	The special servicer has agreed to extend the standstill until 31 July 2014 to finalize the work-out strategy.
6-May-14	OPERA GER2				Repayment of Liquidity Stand-by-Loan	Following rating upgrade of Liquidity bank Dankshe bank by S&P, the liquidity stand-by loan of €12m has been repaid to Dankshe Bank.
6-May-14	TMAN 6				Noteholders Meeting	A conference call will be held on 16 May 2014 at 10AM to discuss all the current loans in the deal.
2-May-14	TITN 2007-2X	Six Hotels Loan	€11	1.9%	Standstill Extension	The borrower has been granted a standstill extension till the date any further notice on termination of standstill period is not issued. This standstill extension is subject to few conditions-scheduled amortizations from borrower equity of €80k on April 2014 IPD and €155k on subsequent IPDs until July 2015, refinance or disposal of the Hotel Flora and Residenz hotel properties before October 2014 IPD and updated valuation for all remaining properties after October 2014 IPD.
2-May-14	TAURS 2007-1	Saturn Whole Loan	€24	11.0%	Loan Event of Default	Due to non-repayment at maturity date 30 April 2014, the Saturn whole loan became a specially serviced loan as of 1 May 2014. As per relevant intercreditor deed, each relevant subordinate lender is entitled to make a cash shortfall payment or waiver in respect of the non-payment within ten business days of the Saturn whole loan becoming a specially serviced loan.
2-May-14	ECLIP 2006-1	Royal Mint Court Loan	£69	41.7%	Loan Sale	The special servicer has accepted a loan sale offer at a gross consideration of £49,500,000. The completion date is expected on or prior to 11 July 2014.
1-May-14	TMAN 6	Mango Loan	€56	7.0%	Appraisal Reduction	The special servicer has calculated an appraisal reduction amount of €44,964,391 as of 15 January 2014. As of 15 January 2014 there were 7 Mango properties remaining in the portfolio to which a value of €11,252,900 was allocated, based on the valuation date as of 1 February 2013.

Source: Investor Notices and Citi Research

Sovereign Ratings and Economics Forecasts

Figure 34. Citi Euro-Area Economic Forecasts, 2014F – 2017F

	Real GDP (% , YY)				Unemployment Rate (% , Annual Average)				Policy Rate (% , Annual Average)				10 YR Yields (% , Annual Average)			
	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F
UK	3.5	3.6	2.5	2.0	6.6	5.1	-	-	0.54	1.67	2.5	2.71	3.05	3.60	3.75	3.90
Euro-Area	1.3	1.8	1.9	1.9	11.8	11.3	-	-	0.16	0.1	0.11	0.42	1.63	1.75	2.00	2.25
Germany	2.2	2.4	2.4	2.1	5.0	4.7	-	-	*	*	*	*	1.63	1.75	2.00	2.25
France	1.0	1.5	1.8	2.0	9.8	9.5	-	-	*	*	*	*	2.14	2.15	2.40	2.65
Spain	1.0	1.6	2.0	1.9	24.9	23.5	-	-	*	*	*	*	3.19	2.95	3.05	3.15
Italy	0.6	1.1	1.0	1.1	13.1	13.0	-	-	*	*	*	*	3.13	2.75	2.85	2.95
Portugal	1.5	2.0	1.7	1.7	14.7	13.5	-	-	*	*	*	*	-	-	-	-
Netherlands	1.3	1.4	1.8	2.1	8.8	8.6	-	-	*	*	*	*	1.90	2.00	2.25	2.50
Ireland	1.8	3.1	2.8	2.9	11.4	10.6	-	-	*	*	*	*	-	-	-	-
Greece	-0.8	1.2	1.6	1.5	27.5	26.4	-	-	*	*	*	*	-	-	-	-

* Same Euro-area policy rate

Source: Citi Research

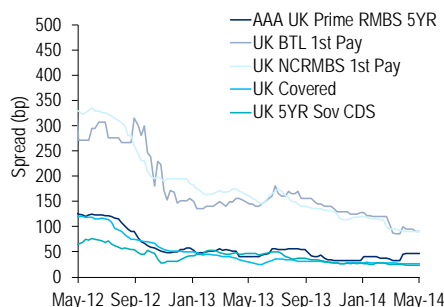
Figure 35. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

Country	S&P Ratings				Moody's Ratings			
	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Canada	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3 (Stable)	A1 ↓↓
Germany	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1 ↓
Italy	BBB	Neg	BBB (Neg)	BBB-	Baa2	Stable	Baa2 (Stable)	Baa2
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Belgium	AA	Stable	AA (Stable)	AA	Aa3	Stable	Aa3 (Stable)	Aa3
Finland	AAA	Neg	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Greece	B-	Stable	B- (Stable)	B-	Caa3	Stable	Caa3 (Stable)	Caa3
Ireland	BBB+	Positive	A- (Stable) ↑	A- ↑	Baa3	Positive	Baa2 (Stable)	A3 ↑↑↑↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Portugal	BB	Neg	BB+ (Pos) ↑	BBB-↑↑	Ba3	Stable	Ba2 (Pos)	Baa3 ↑↑↑
UK	AAA	Neg	AAA (Stable)	AAA	Aa1	Stable	Aa1 (Pos)	Aaa ↓↑
Switzerland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Sweden	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Denmark	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Norway	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. NA Not available. Sources: Moody's, S&P and Citi Research

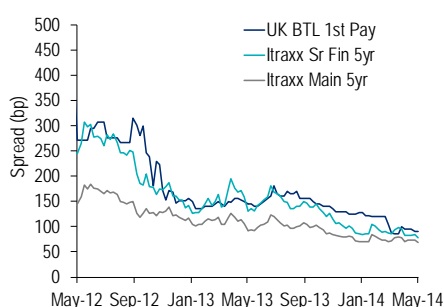
Core RMBS Spreads and Relative Value

Figure 36. UK RMBS Seniors Versus Indexes, May 12 – May 14



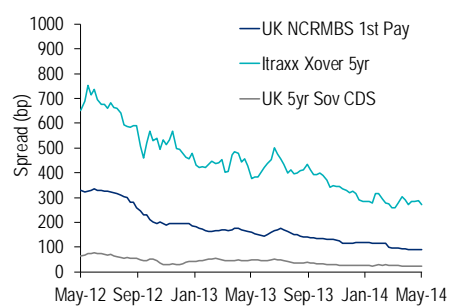
Source: Markit and Citi Research

Figure 37. UK BTL RMBS Seniors Versus Indexes, May 12 – May 14



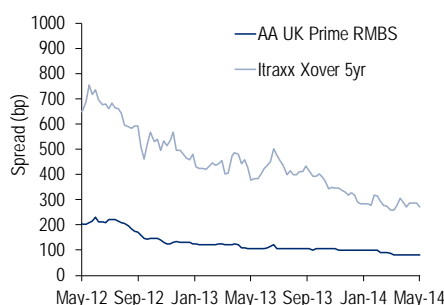
Source: Markit and Citi Research

Figure 38. UK NCRMBS Seniors Versus Indexes, May 12 – May 14



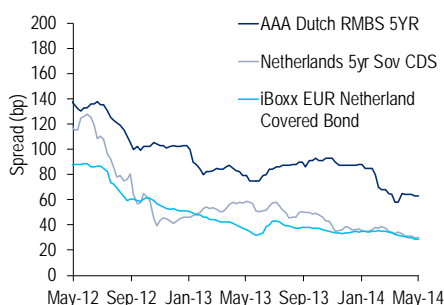
Source: Markit and Citi Research

Figure 39. UK Prime RMBS Subordinates Versus Index, May 12 – May 14



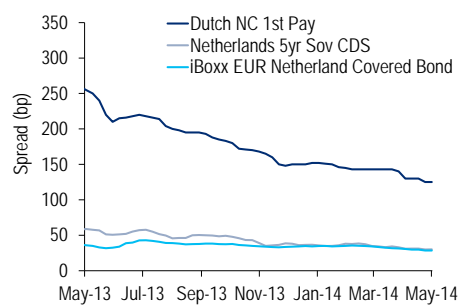
Source: Markit and Citi Research

Figure 40. Dutch RMBS Seniors Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

Figure 41. Dutch NC 1st Pay Versus Indexes, May 13 – May 14



Source: Markit and Citi Research

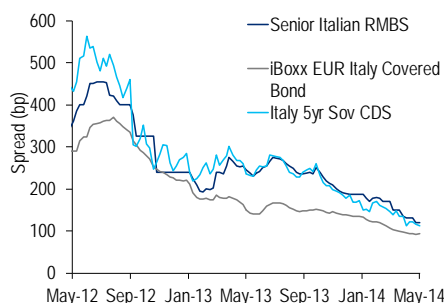
Figure 42. UK Prime, UK NC, UK BTL, Dutch Prime and Dutch NC Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ From Low	2013 High	Δ From High
UK	Prime RMBS	AAA 1YR	22	0	-1	0	-4	20	2	38	-16
		AAA 3YR	31	0	0	1	-1	27	4	47	-16
		AAA 5YR	46	0	0	8	6	32	14	56	-10
		Mezz	80	0	0	-10	-25	80	0	125	-45
	Buy to Let	PARGN 1st Pay	90	0	-5	-30	-55	85	5	180	-90
		PARGN 2nd Pay	110	0	-5	-100	-120	110	0	275	-165
		PARGN 3rd Pay	150	0	0	-150	-175	150	0	375	-225
		AIREM AAA	78	0	0	-22	-37	78	0	160	-82
		AIREM AA	123	0	-7	-42	-97	123	0	250	-127
		AIREM BBB	0	0	-225	-275	-295	0	0	350	-350
Netherlands	Non-Conforming RMBS	NC 1st Pay	90	0	0	-24	-70	90	0	183	-93
		NC 2nd Pay	135	0	0	-49	-95	135	0	315	-180
	Covered Bonds	iBoxx EUR UK	26	0	-1	-2	-3	24	2	50	-24
		Sovereign CDS	23	0	0	-5	-24	23	0	53	-30
	Prime RMBS	AAA 1YR	37	0	-3	-8	-2	33	4	55	-18
		AAA 3YR	48	0	-1	-12	-7	48	0	76	-28
		AAA 5YR	63	0	-1	-7	-16	58	5	100	-37
		Mezz	80	0	0	-10	-105	80	0	200	-120
	Non-Conforming	NC 1st Pay	125	0	-5	-18	-130	125	0	320	-195
		NC 2nd Pay	180	0	-10	-30	-120	180	0	365	-185
		NC 3rd Pay	305	0	-15	-48	-220	208	97	675	-370
	Covered Bonds	iBoxx EUR Netherland	28	0	-2	-7	-7	28	0	51	-22
	Sovereign CDS	Sovereign 5YR	30	0	-1	-7	-29	30	0	59	-29

Source: Markit and Citi Research

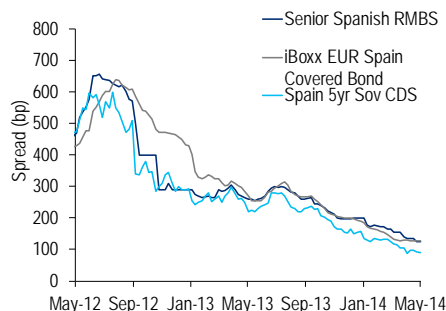
Peripheral RMBS and Relative Value

Figure 43. Italian RMBS Seniors Versus Indexes, May 12 – May 14



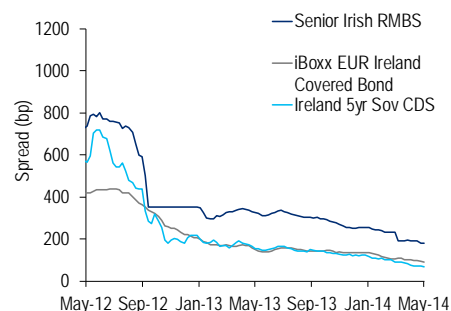
Source: Markit and Citi Research

Figure 44. Spanish RMBS Seniors Versus Indexes, May 12 – May 14



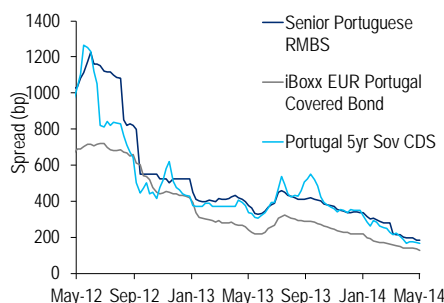
Source: Markit and Citi Research

Figure 45. Irish RMBS Seniors Versus Indexes, May 12 – May 14



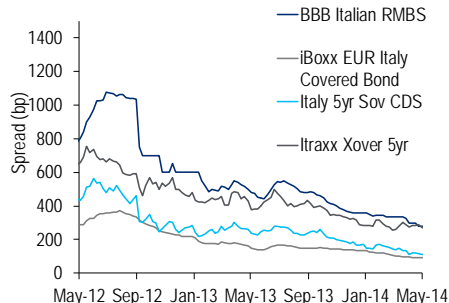
Source: Markit and Citi Research

Figure 46. Portuguese RMBS Seniors Versus Indexes, May 12 – May 14



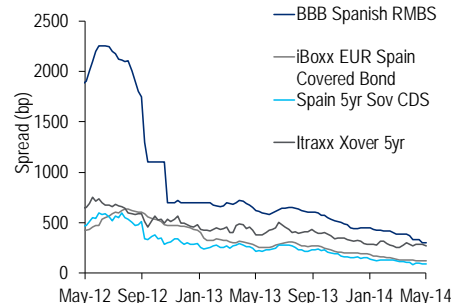
Source: Markit and Citi Research

Figure 47. Italian RMBS Subordinates Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

Figure 48. Spanish RMBS Subordinates Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

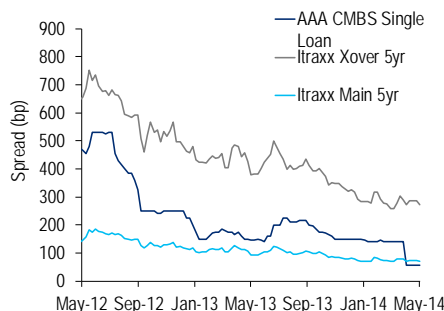
Figure 49. Peripheral RMBS Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ 1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Italy	RMBS	AAA Italy	120	0	-10	-57	-125	120	0	275	-155
		AA Italy	150	0	0	-96	-135	150	0	325	-175
		A Italy	185	0	-20	-112	-165	185	0	440	-255
		BBB Italy	280	0	-20	-63	-200	280	0	600	-320
	Covered Bonds	iBoxx EUR Italy	93	1	-2	-26	-57	92	1	211	-118
	Sovereign CDS	Italy Sovereign 5YR	112	-4	1	-49	-124	111	1	300	-188
Spain	RMBS	AAA Spain	125	0	-10	-48	-135	125	0	305	-180
		AA Spain	175	0	-15	-120	-200	175	0	410	-235
		A Spain	290	0	-20	-98	-235	290	0	690	-400
		BBB Spain	300	0	-30	-120	-320	300	0	725	-425
	Covered Bonds	iBoxx EUR Spain	127	0	-2	-31	-141	127	0	401	-275
	Sovereign CDS	Spain Sovereign 5YR	89	-4	2	-40	-129	88	2	296	-206
Portugal	RMBS	AAA Portugal	185	0	-10	-105	-190	185	0	460	-275
		AA Portugal	275	0	-15	-100	-185	275	0	595	-320
		A Portugal	380	0	-20	-70	-170	380	0	740	-360
		BBB Portugal	400	0	-20	-100	-250	400	0	840	-440
	Covered Bonds	iBoxx EUR Portugal	124	-9	-15	-47	-116	124	0	392	-267
	Sovereign CDS	Portugal Sovereign 5YR	166	-4	2	-96	-170	164	2	548	-382
Ireland	RMBS	AAA Ireland	180	0	-10	-53	-145	180	0	349	-169
		AA Ireland	315	0	-15	-125	-250	315	0	600	-285
		A Ireland	450	0	-25	-100	-265	450	0	750	-300
		BBB Ireland	600	0	-50	-185	-370	600	0	1000	-400
	Covered Bonds	iBoxx EUR Ireland	90	-2	-10	-22	-60	90	0	200	-110
	Sovereign CDS	Ireland Sovereign 5YR	67	-4	-7	-33	-87	67	0	197	-131

Source: Markit and Citi Research

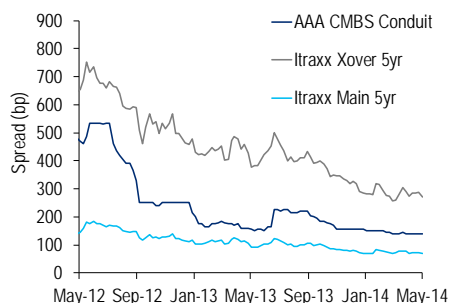
CMBS and CLO Spreads and Relative Value

Figure 50. AAA CMBS Single Loan Versus Indexes, May 12 – May 14



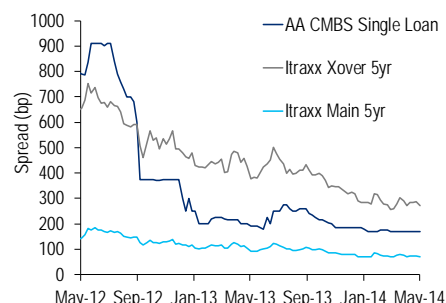
Source: Markit and Citi Research

Figure 51. AAA CMBS Conduit Versus Indexes, May 12 – May 14



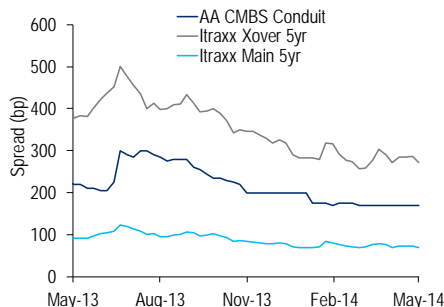
Source: Markit and Citi Research

Figure 52. AA CMBS Single Loan Versus Indexes, May 12 – May 14



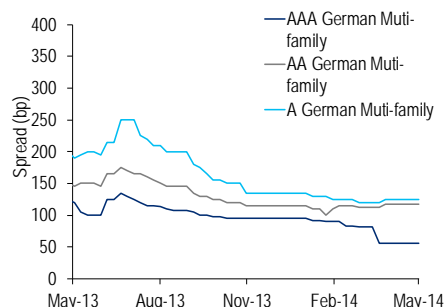
Source: Markit and Citi Research

Figure 53. AA CMBS Conduit Versus Indexes, May 13 – May 14



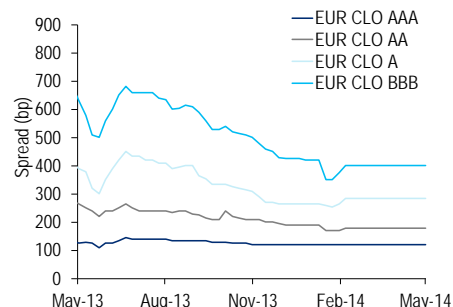
Source: Markit and Citi Research

Figure 54. German Multifamily Spreads, May 13 – May 14



Source: Citi Research

Figure 55. EUR CLO Spreads, May 13 – May 14



Source: Citi Research

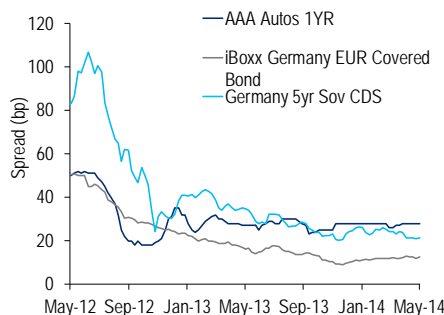
Figure 56. CMBS, WBS and CLO Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ 1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Europe	CMBS	AAA German Multi	56	0	0	-34	-64	56	0	150	-94
		AAA Single Loan	56	0	0	-89	-89	56	0	225	-169
		AAA Conduit	140	0	0	-10	-15	140	0	225	-85
		AAA Fixed	90	0	0	-10	-35	90	0	225	-135
		AA German Multi	117	0	0	2	-28	100	17	225	-108
		AA Single Loan	170	0	0	-5	-20	170	0	275	-105
		AA Conduit	170	0	0	-5	-50	170	0	300	-130
		AA Fixed	115	0	0	15	-50	90	25	250	-135
		A German Multi	125	0	0	0	-65	120	5	350	-225
		A Single Loan	320	0	0	-5	55	250	70	450	-130
		A Conduit	320	0	-5	-30	45	270	50	475	-155
		A Fixed	170	0	0	-15	-55	165	5	495	-325
	CLO	AAA	120	0	0	0	-5	110	10	150	-30
		AA	180	0	0	0	-85	170	10	300	-120
		A	285	0	0	0	-105	255	30	460	-175
		BBB	400	0	0	0	-230	350	50	800	-400
	WBS	AAA	115	0	5	-10	-70	110	5	300	-185
		AA	120	0	0	-5	-105	120	0	350	-230
		A	170	0	-5	-20	-130	170	0	425	-255
		BBB	320	0	-5	-10	-115	315	5	600	-280

Source: Markit and Citi Research

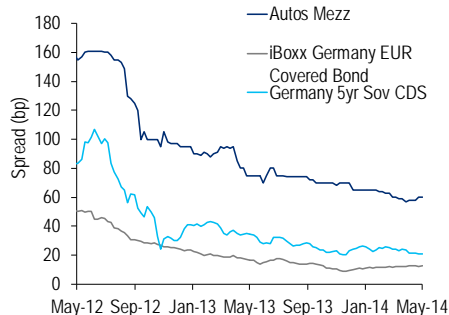
Auto and Credit Card ABS Spreads and Relative Value

Figure 57. European Auto Seniors Versus Indexes, May 12 – May 14



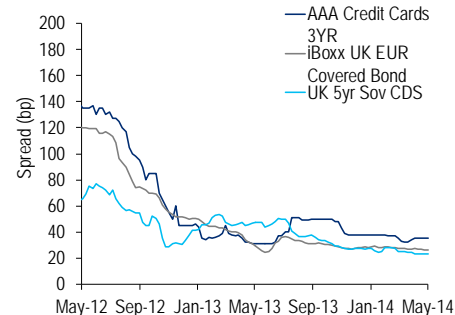
Source: Markit and Citi Research

Figure 58. European Auto Mezz Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

Figure 59. UK Credit Card ABS Versus Indexes, May 12 – May 14



Source: Markit and Citi Research

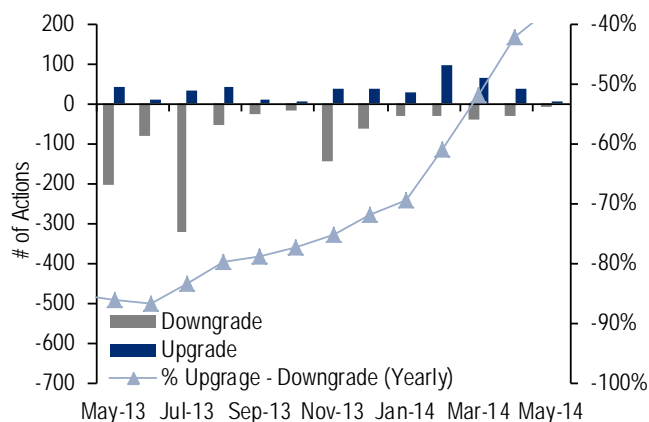
Figure 60. European Autos and UK Credit Card ABS Spread Changes and Statistics, 2014YTD

Country	Product	Product	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Europe	Autos	1YR	28	0	0	0	1	23	5	32	-4
		3YR	39	0	0	-1	-2	37	2	45	-6
		5YR	48	0	0	-2	-11	46	2	63	-15
		Mezz	60	0	2	-4	-15	57	3	95	-35
Germany	Automobile and Parts Index	iBoxx EUR Automobile & Parts	82	-1	-5	10	13	47	35	91	-9
	Covered Bonds	iBoxx EUR Germany	13	1	0	1	-4	9	4	23	-10
	Sovereign CDS	Sovereign 5YR	21	0	0	-4	-14	20	1	43	-22
UK	Credit Cards	1YR	25	0	-2	-3	0	25	0	38	-13
		3YR	35	0	0	-2	4	31	4	51	-16
		5YR	40	0	2	-1	-2	34	6	63	-23
		Mezz	80	0	0	-20	-14	80	0	127	-47
	Covered Bonds	iBoxx EUR UK	26	0	-1	-2	-3	24	2	50	-24
	Sovereign CDS	Sovereign 5YR	23	0	0	-5	-24	23	0	53	-30

Source: Markit and Citi Research

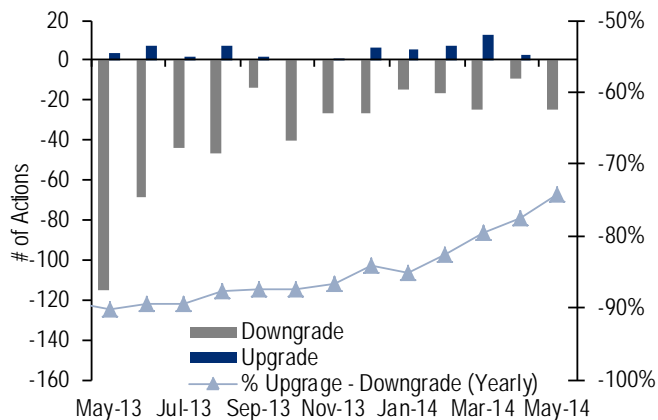
Rating Actions and Trends

Figure 61. European RMBS Rating Upgrades and Downgrades, May 13 – May 14



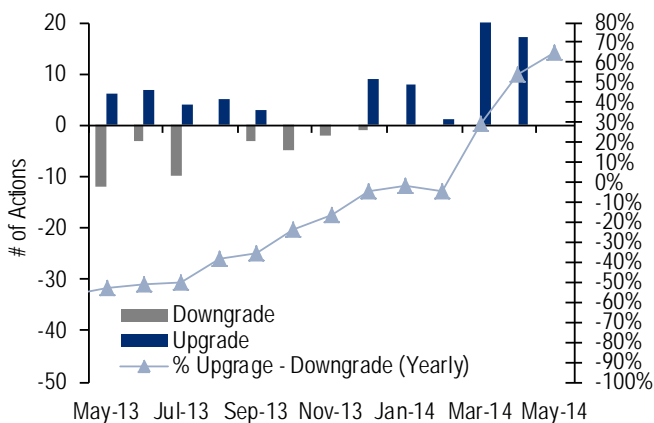
Source: Moody's, S&P and Fitch

Figure 62. European CMBS Rating Upgrades and Downgrades, May 13 – May 14



Source: Moody's, S&P and Fitch

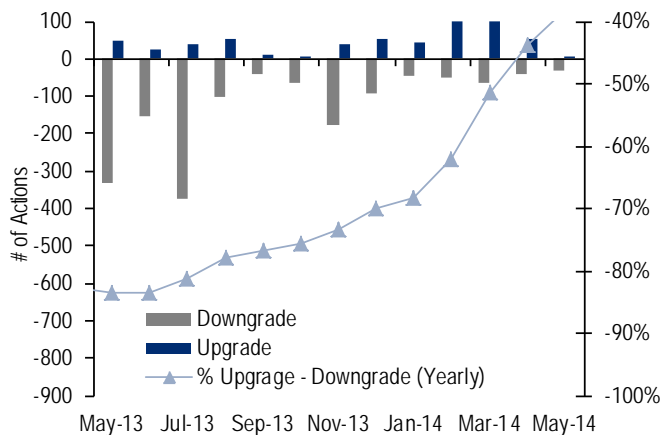
Figure 63. European ABS* Rating Upgrades and Downgrades May 13 – May 14



* ABS includes – European Lease ABS, European Consumer ABS, SME ABS, Auto ABS, UK Credit Card ABS, NPL ABS

Source: Moody's, S&P and Fitch

Figure 64. European Total Securitized Products Rating Upgrades and Downgrades, May 13 – May 14



Source: Moody's, S&P and Fitch

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