

# European ABS market Update

## European ABS secondary continues to trade well, COVID-19 impact on credit varies across collateral types and regions

The number of COVID-19 cases has now reached the grim milestone of 20 million, with some resurgence in parts of Europe alongside continued spread in the Americas and parts of Asia. While this was likely to occur due to easing of lockdown measures combined with the summer holiday period, the effect across countries has been varied. Parts of Eastern Europe have experienced drastic increases in case numbers, contrasting with countries in Western Europe where the resurgence remains far below March and April levels. The trend is similar in the US where cases in the Northeast, which was hit the hardest, have stabilized while the rest of the country continues to deal with a first wave of infections. This has lent some credence to the idea that the infection rate needed to reach some form of herd immunity may be significantly lower than estimated. Still, we expect soft restrictions on movement and activities to remain in place until there is a widely distributed vaccine. Despite announcements of a Russian vaccine and agreements with various pharmaceutical firms to supply vaccine doses, we remain cautious on timing of widespread vaccination with any significant distribution unlikely to occur before Q1 2021. As expected, on the macroeconomic front reports point to the euro zone economy contracting by 12.1% q-o-q in Q2 with the Spanish economy contracting by 18.5% compared to Germany, which was down 10.1% for the same period. This compares to a 20.4% decline in the UK and 9.5% in the US, highlighting a significant dispersion across Western economies in what is generally expected to be the bottom as we transition into a slow and uneven recovery in the second half of the year.

European ABS issuance remains subdued, partially due to the effects of COVID-19 compounded by the typical lull in European markets during the summer holiday period. There were two RMBS issuances, one French and one Italian (both fully retained), during the first week of August, which could point to some transactions in the pipeline in the fall. This continues the trend from the last weeks of July, where deals are retained or mostly pre-placed with only a few senior tranches being marketed. In the absence of new issue supply, European ABS secondary continued to perform well with senior peripheral RMBS tranches trading especially well during the last month. ECB eligible assets have continued to grind tighter with Dutch Prime RMBS closing the month close to the pre-COVID-19 tightness. BWIC execution was robust with most bonds trading, as the level of DNTs has fallen below -5%, notably lower than the typical 10-20% range observed in recent months.

We continue to monitor the fundamental credit performance of various ABS asset classes and highlight some trends which continue to develop. In RMBS, delinquency rates broadly remain stable with payment holidays remaining high in some jurisdictions (e.g. UK). Dutch RMBS continues to be the strongest performer with both payment holidays and arrears at low levels, but peripheral RMBS (e.g. Spanish and Portuguese) are holding up quite well albeit with somewhat higher payment holiday rates. The same performance dispersion also affects Auto ABS, where German delinquency rates continue to outperform rates in other countries.

Below is an overview of the one week spread change in various ABS segments, compared to investment grade and high yield corporate credit as of August 7th, 2020:

	20-2	20-3	27-3	24-4	1-5	15-5	29-5	12-6	26-6	10-7	7-8	2 Week Change	Ytd	Peak 2007-2009
Iboxx Eur Corporate	100	247	256	205	193	205	176	151	155	151	147	-4 bps	43 bps	470 bps
Iboxx EUR HY	338	895	802	649	645	665	569	534	542	520	498	-22 bps	148 bps	1930 bps
Prime/Auto Senior ABS	16	50	60	48	46	44	42	40	38	34	32	-2 bps	16 bps	400 bps
Spanish Senior RMBS	38	200	215	165	155	150	150	140	138	135	135	0 bps	22 bps	750 bps
Auto ABS Mezzanine	60	250	275	240	230	210	200	182	180	177	173	-4 bps	97 bps	1150 bps
CLO AAA	105-125	300-400	200-300	175-200	175-200	175-200	175-200	175-200	175-200	175-200	150-175	-25 bps	30-55 bps	550 bps
CLO BBB	265-375	600-800	750-850	700-850	650-800	600-750	500-650	500-600	500-600	500-600	450-550	-50 bps	65-165 bps	2300 bps

Source: Bloomberg



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