

Global Sovereign Credit Risk Report

2nd Quarter 2010

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Data: Methodology and Definitions

This paper focuses on changes in the risk profile of sovereign debt issuers, with the intention to identify trends and drivers of change.

We have divided world debt risk into eight regions: US & UK, Western Europe, Emerging Europe, Scandinavia, Latin & South America, Middle East & Africa, Australasia and Asia. In addition to identifying themes within each of these regions, macro trends across the sovereign debt sector are also discussed.

CDS Values are calculated by CMA DataVision – an independent CDS pricing service based on data collected from CMA's consortium of swap market participants. Unless otherwise stated, all published CDS values will be the midpoint on the 5 year tenor and are based on London closing values from 29th June, 2010. Record highs are determined by using closing values and do not factor in intra-day highs.

Cumulative Probability of Default (CPD) quantifies the probability of a country being unable to honour its debt obligations over a given time period. Unless otherwise stated, all stated values are for the 5 year CPD. CPD is calculated using an industry standard model fed with proprietary credit data from CMA DataVision.

Implied Ratings are calculated using a proprietary model developed by CMA and fed with CDS pricing data from CMA DataVision.

Data Access: CMA provides independent, intra-day pricing on over 1,500 single name CDS and CDS Indices. Widely used by risk managers, treasurers and researchers in financial institutions across the world, CDS data is available directly from CMA or via our strategic partners. For more information about how CMA can help you effectively monitor and manage your credit exposures please contact us via info@cmavision.com

Changes in CMA Sovereign Debt Coverage

Deletions:

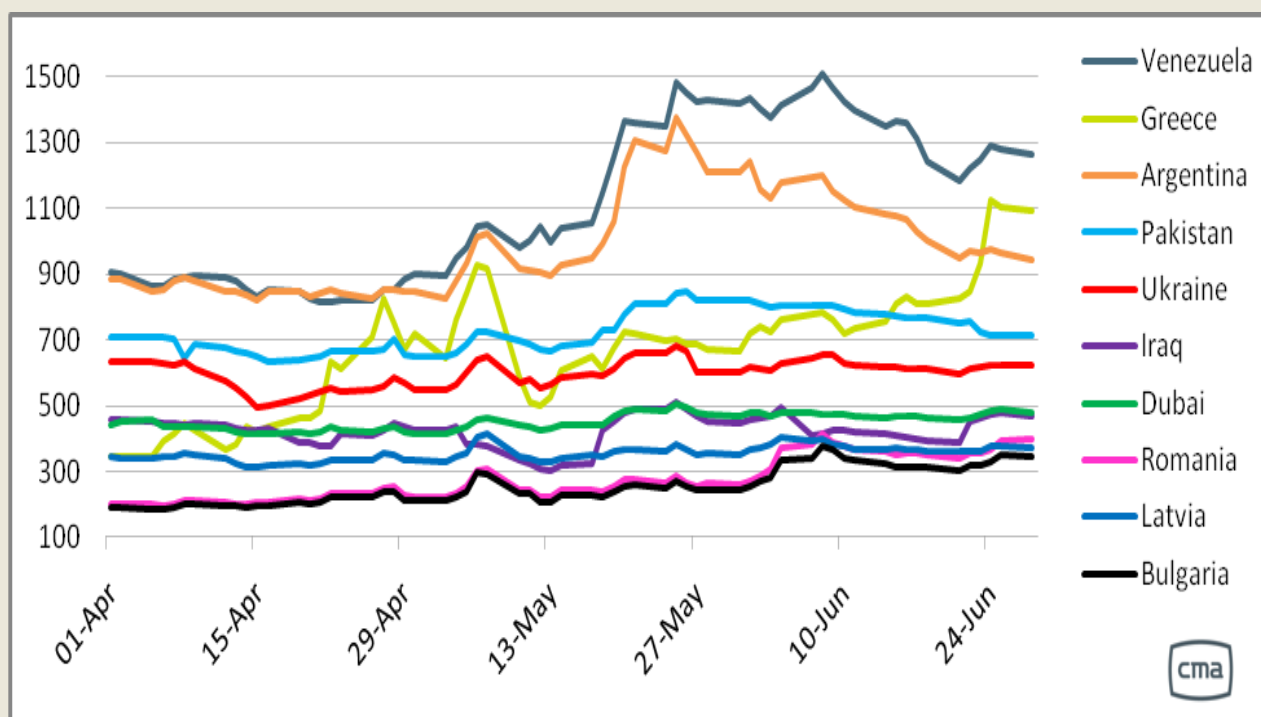
No deletions to our sovereign coverage this quarter.

Additions:

This quarter, CMA has seen sufficient market activity to provide pricing on CDS referencing Dominican Republic, Guatemalan and Uruguayan sovereign debt.

The World's Riskiest Sovereign Debt

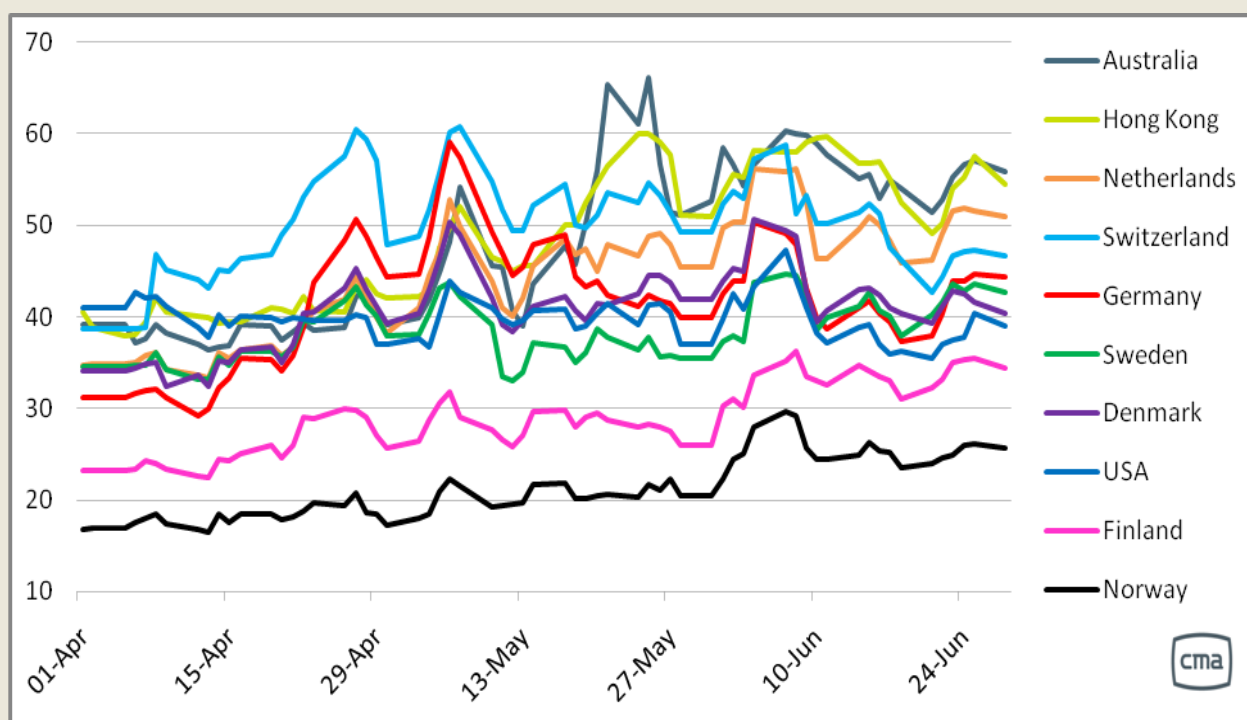
Position Q2	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	Venezuela	58.7	CMA_ccc-	1305.7 / 27% UF	1 (No Change)
2	Greece	55.6	CMA_ccc	1003.4	9 (Down 7)
3	Argentina	47.9	CMA_ccc+	963/ 17.5% UF	2 (Up 1)
4	Pakistan	39	CMA_b	719	3 (Up 1)
5	Ukraine	35.9	CMA_b	628.8	4 (Up 1)
6	Dubai	29.4	CMA_b+	493.5	6 (No Change)
7	Iraq	29	CMA_b+	476.5	5 (Up 2)
8	Romania	25.5	CMA_bb-	412.8	New Entry
9	Latvia	23.6	CMA_bb-	379.5	8 (Up 1)
10	Bulgaria	22.8	CMA_bb-	363.7	New Entry



- The deterioration of Greece's debt position has been the focus of this quarter in the sovereign credit markets, reflected by a 9 position downward move in the global ranking
- Iceland and Egypt have exited the top ten, replaced by Eastern European nations Romania and Bulgaria
- The potential for default is rising, with a range of 22.8% (Bulgaria) to 58.7% (Venezuela) this quarter, compared to 16.5% (Egypt) and 48.5% (Venezuela) over Q1

The World's Safest Sovereign Debt

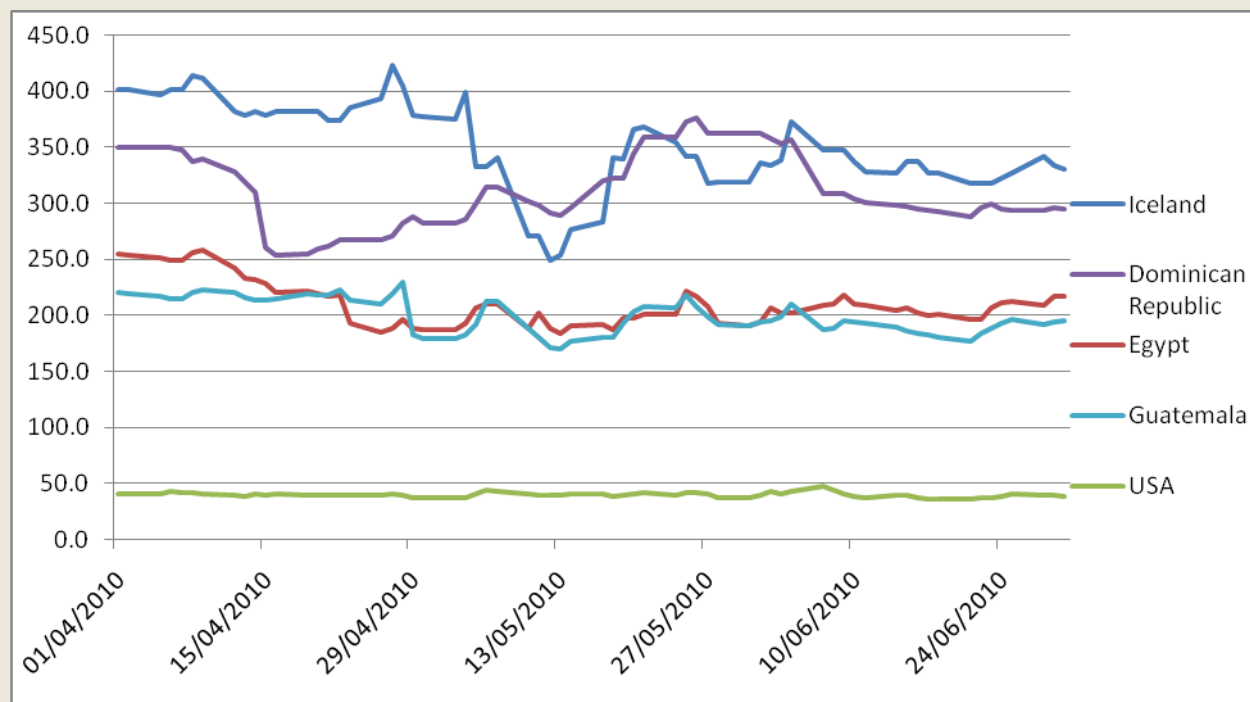
Position Q2	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	Norway	2.4	CMA_aaa	26.7	1 (No Change)
2	Finland	3.1	CMA_aaa	35.5	2 (No Change)
3	USA	3.5	CMA_aaa	40	10 (Up 7)
4	Denmark	3.8	CMA_aaa	43.2	5 (Up 1)
5	Sweden	3.9	CMA_aaa	43.7	4 (Down 1)
6	Germany	4.1	CMA_aaa	46.3	3 (Down 3)
7	Switzerland	4.3	CMA_aa+	48.4	8 (Up 1)
8	Netherlands	4.6	CMA_aa+	52.4	6 (Down 2)
9	Hong Kong	4.9	CMA_aa+	56.6	9 (No Change)
10	Australia	5.2	CMA_aa+	59.8	7 (Down 3)



- Once again, the lowest default risk remains geographically concentrated around Western and Northern Europe
- No changes to the constituents of the top 10 safest sovereign debt issuers this quarter

Best Quarterly Performances – Percentage Change

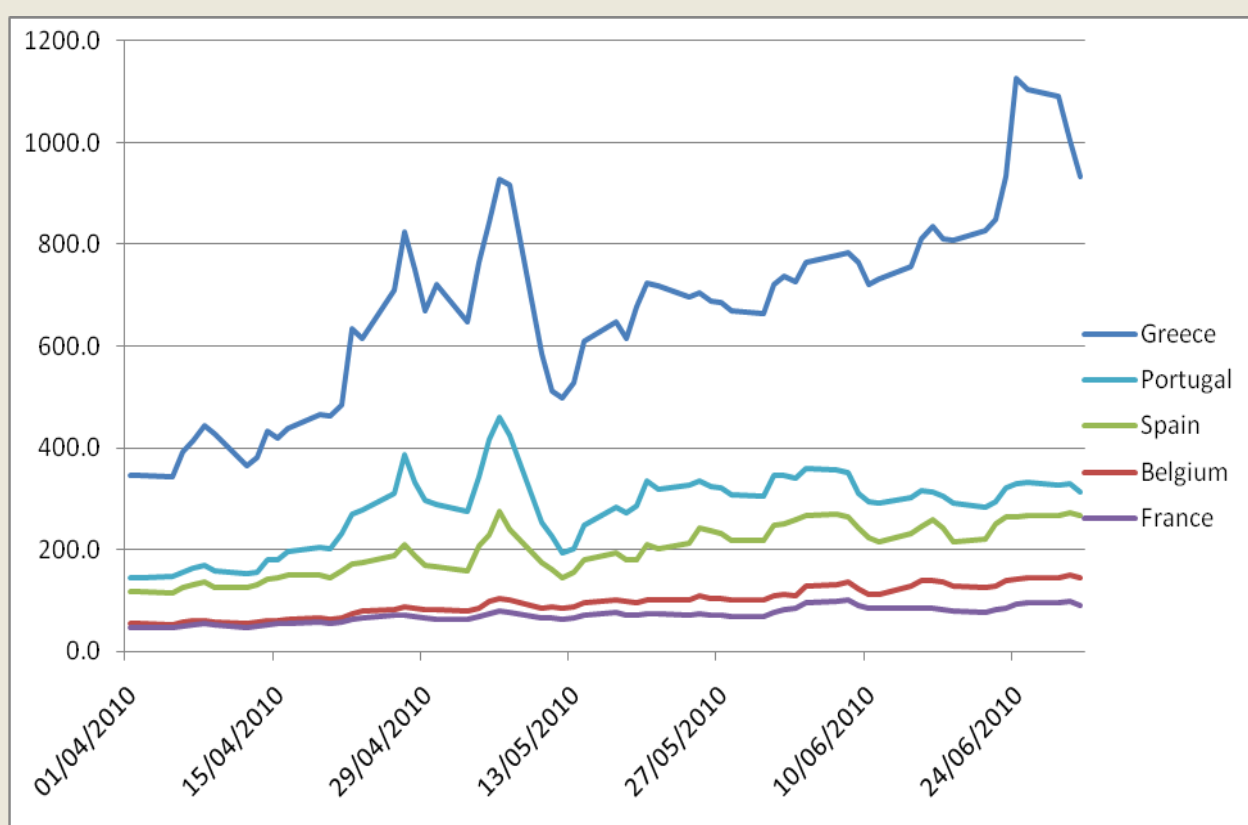
Country	5yr Mid April 1 st bps	5yr Mid June 29 th bps	Change %
Iceland	401.7	333.4	-17.0
Dominican Republic	349.6	295.9	-15.3
Egypt	255	216.6	-15.0
Guatemala	220.1	194.3	-11.7
USA	41	40	-2.4



- Only 7% of the sovereign CDS that CMA tracks showed improvement this quarter

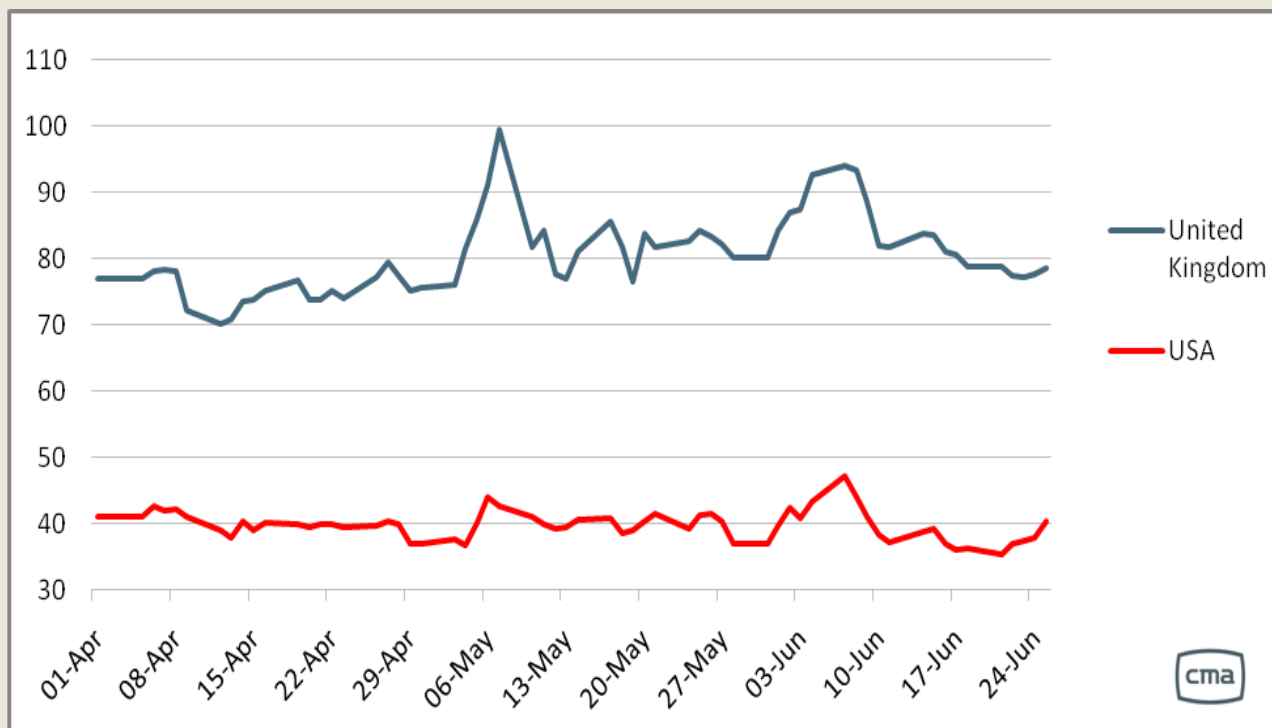
Worst Quarterly Performances - Percentage Change

Country	5yr Mid April 1 st bps	5yr Mid June 29 th bps	Change %
Greece	346	1003.4	190
Belgium	55.9	150.2	168.5
Spain	118.5	271.6	129.2
Portugal	145.4	330.6	127.3
France	45.9	97.5	112.3



- 93% of the sovereign CDS tracked by CMA widened over the second quarter with the cost of protection increasing by an average of 30%
- Greece, Portugal and France continue to show weak performance- they have been some of the biggest wideners since the first quarter of this year

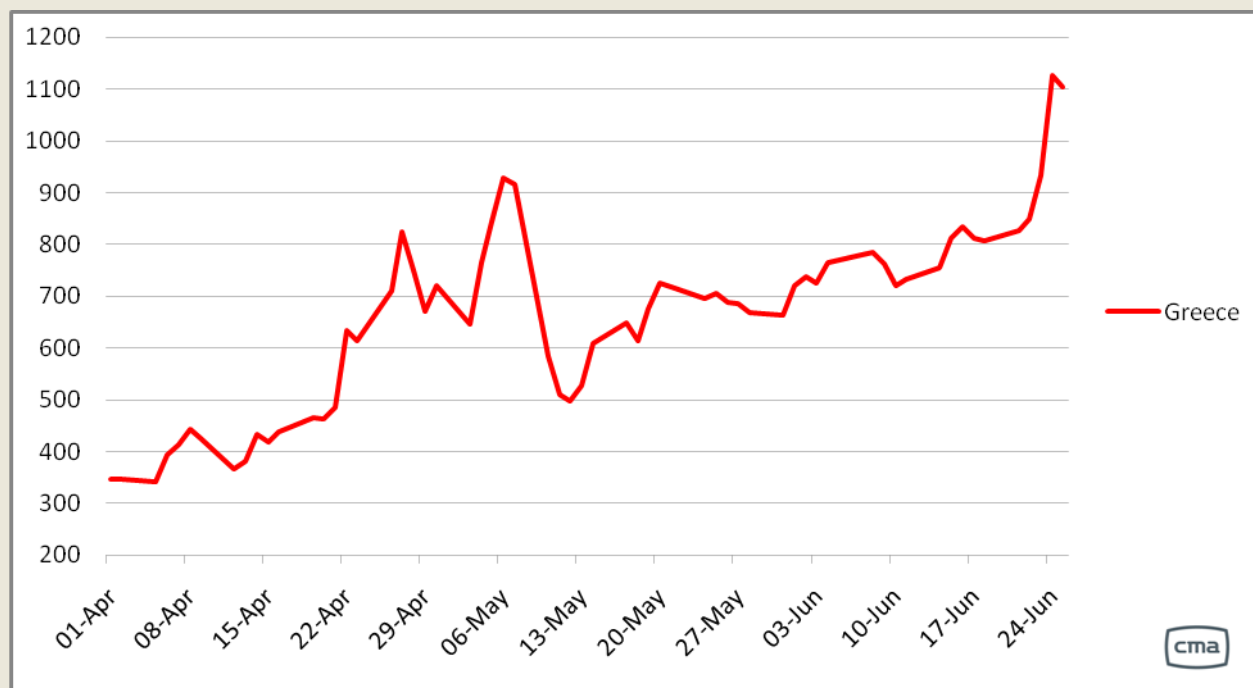
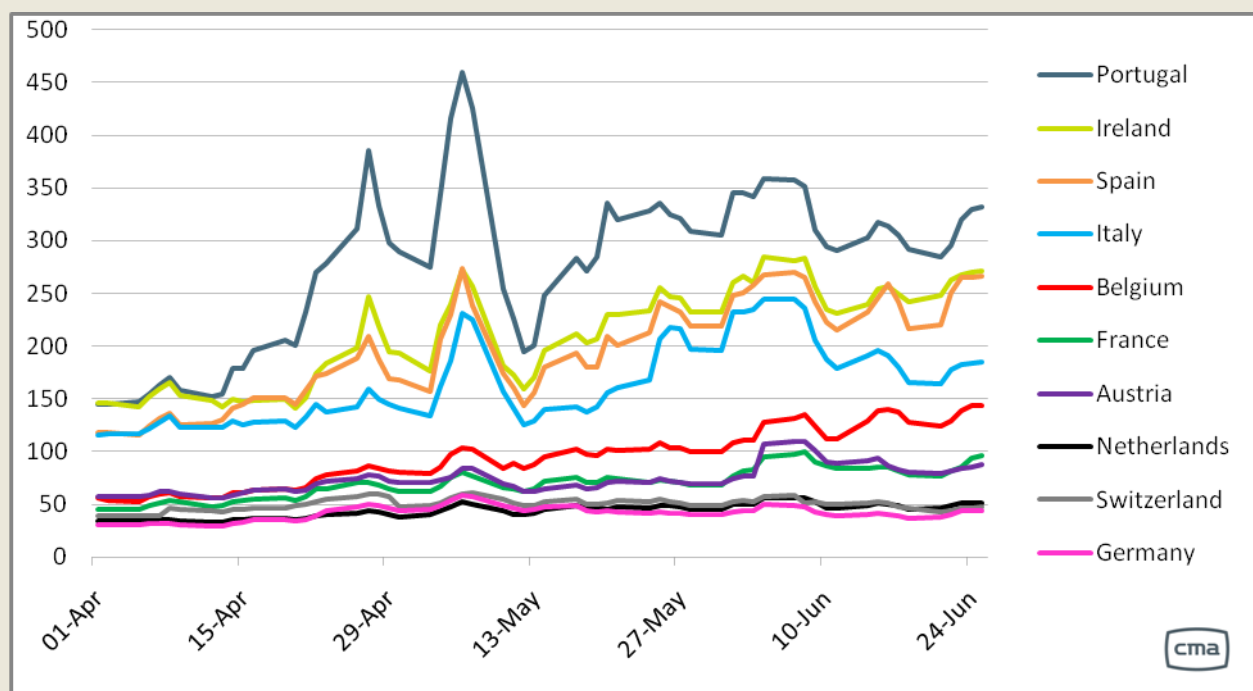
Regional Focus: UK & USA



Notes

- The U.S. has been one of only 8 sovereign CDS showing improvement over Q2, a modest 2.4% tighter
- The U.K. CDS has shown fairly little overall change this quarter, widening slightly by 2%
- The new U.K. coalition government has announced a reduction in the scale of state spending and tax increases to help bring the U.K.'s public debt under control
- Huge rally in U.S. Treasuries this quarter with the 10 year yield dropping under 3% - the first time for over a year

Regional Focus: Western Europe



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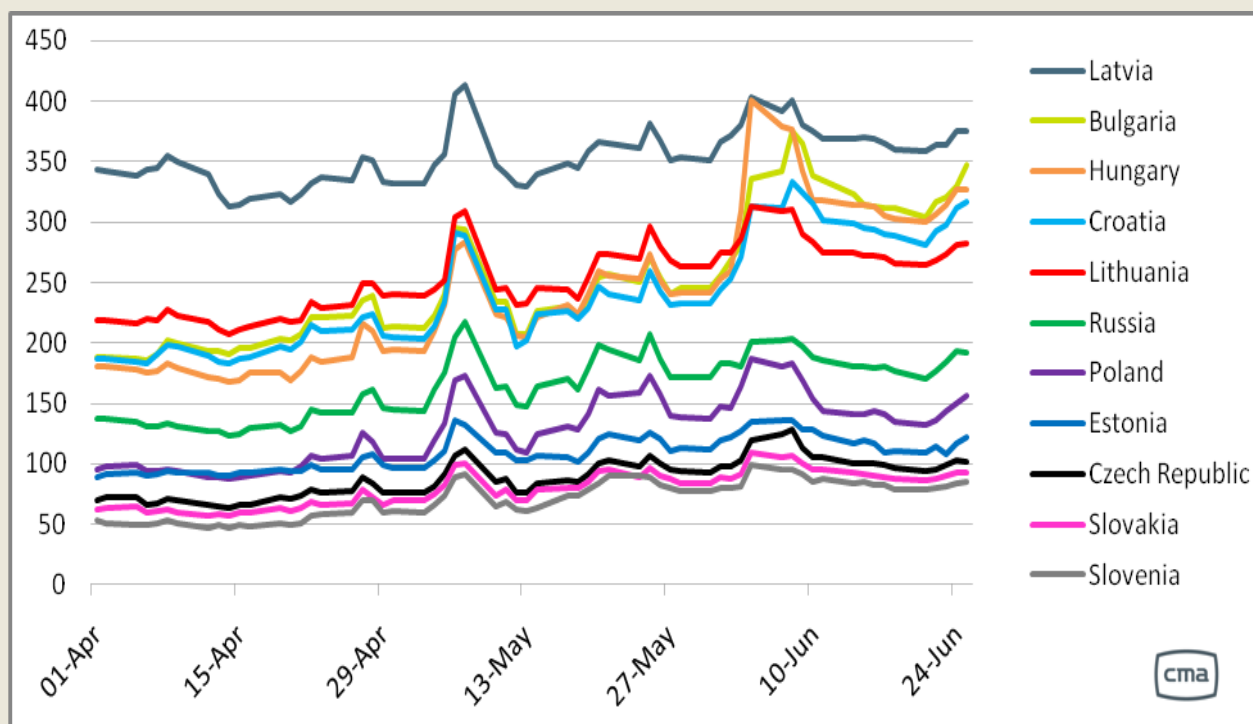
Notes

- Towards the end of the quarter Greece temporarily overtook Venezuela as the sovereign with the highest default probability and has been the worst performer this quarter globally.
- Many Eurozone sovereigns reached all time closing highs during this quarter:

Country	Record Closing High bps	Date
Spain	273.9	6 th May
Portugal	460	6 th May
Italy	244.7	4 th June
France	99.9	8 th June
Switzerland	65.6	10 th June
Greece	1126	24 th June

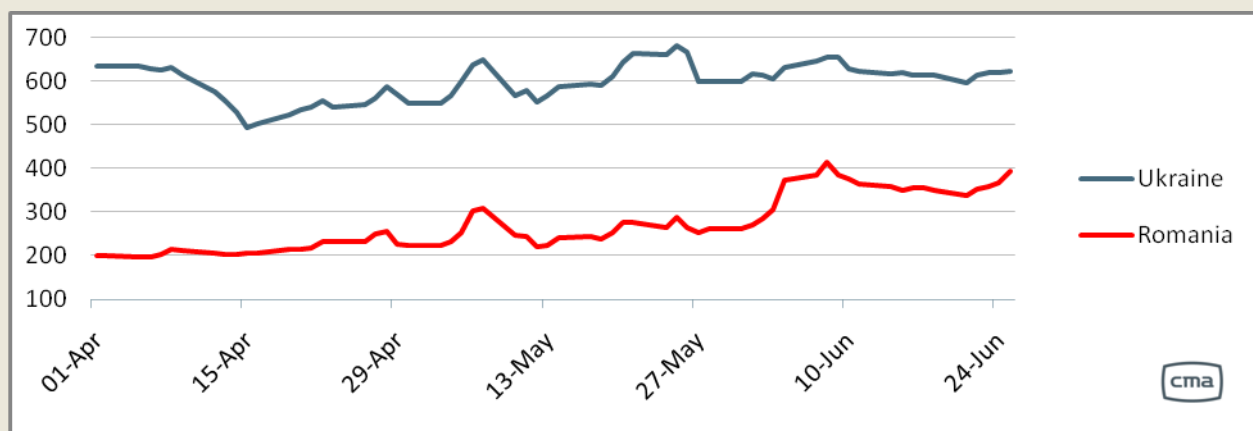
- The European Union has pledged € 750bn to help ease the region's escalating debt crisis
- All of the worst performers have come from Western Europe this quarter, with protection costs for the poorest performers more than doubling– Greece wider by a huge 190%, Belgium out by 168%, Spain out by 129%, Portugal widening 127% and France by 112%
- The major widening action in European sovereign credits indicates that the Eurozone remains the hub and focus of the global debt crisis- none of the Western European sovereign CDS have tightened this quarter
- In the wake of the Greek debt crisis, European governments discussed banning naked shorts on Sovereign CDS prompting the authors of a paper on sovereign CDS from Citi to famously comment that "You can't blame the mirror for your ugly face"
- Germany's ban on naked shorts on sovereign CDS and selected financials has not been followed by other European nations who, on the whole, have preferred to focus on austerity measures to reduce debt to GDP ratios

Regional Focus: Emerging Europe

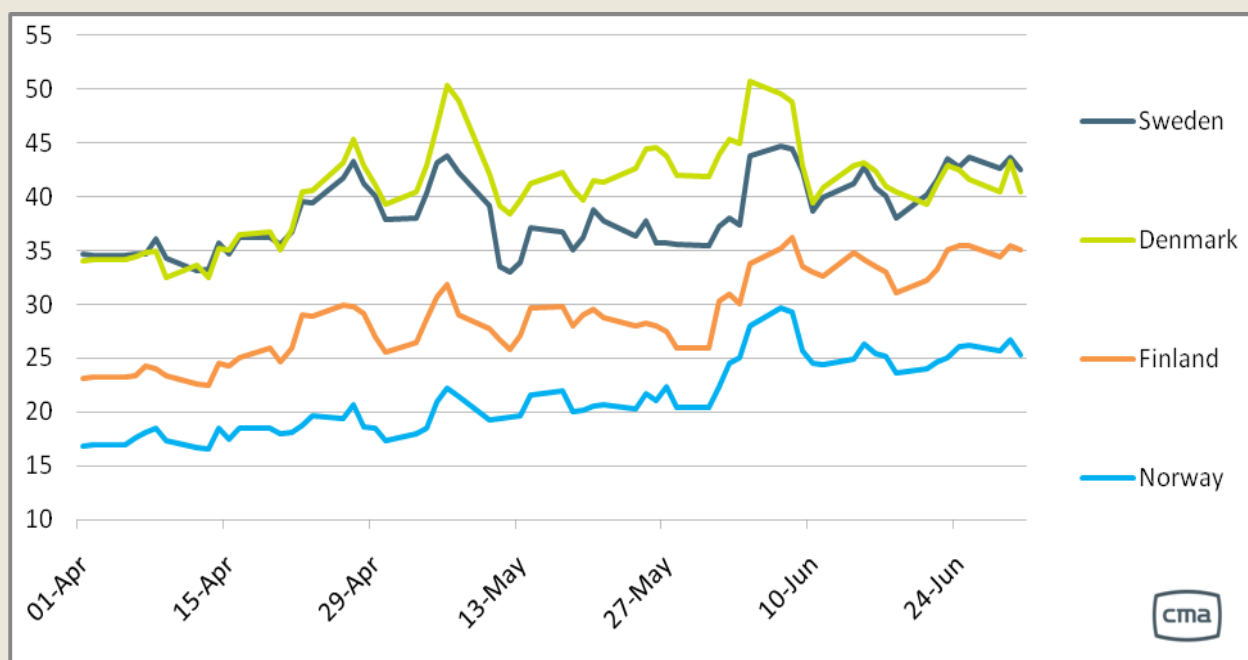


Notes

- Ukraine continues its tightening trend and was one of the region's best performers this quarter, tightening by 1%
- Romania, Hungary and Bulgaria have been the weakest performers in the region, widening by 105%, 95% and 93% respectively
- Romania's Prime Minister survived a no confidence vote, clearing the way for a series of austerity measures and reforms
- Bulgaria and Croatia have performed similarly this quarter. Slovakia, Slovenia and the Czech Republic continue to follow each other closely

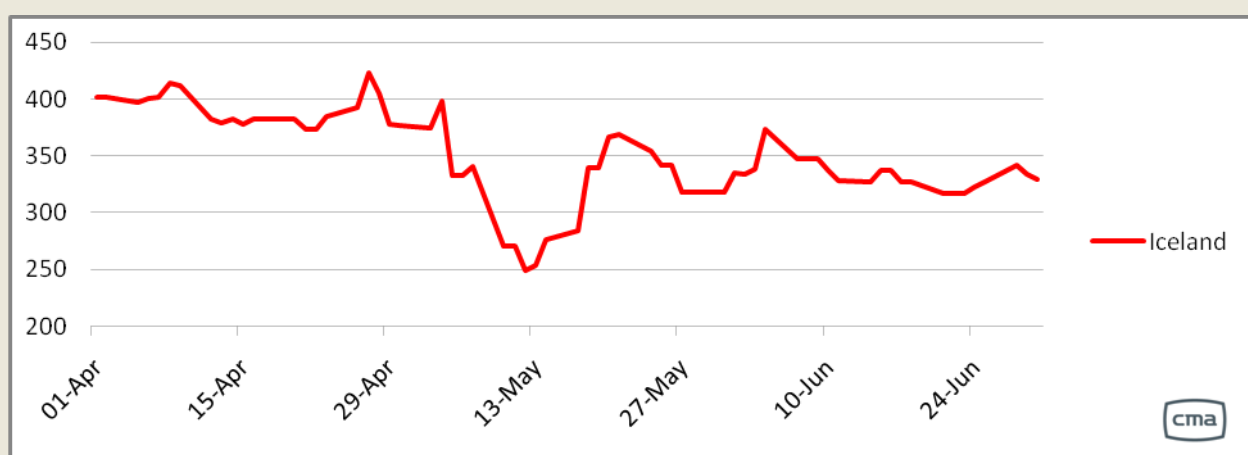


Regional Focus: Scandinavia & The Nordic Region

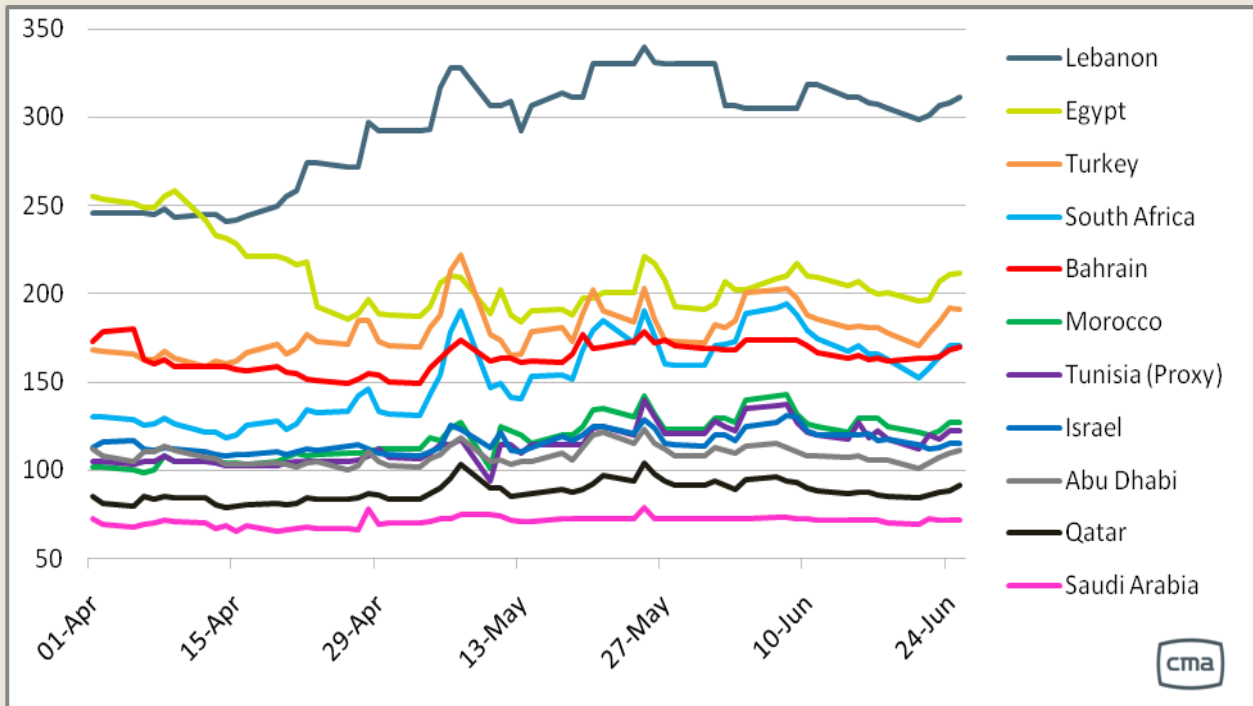


Notes

- The Nordic region has remained insulated from the worst effects of the global debt crisis with very low debt insurance costs
- Iceland has been the best performer in the region, and the world. Tighter by 17% over the quarter
- Norway still has the lowest cost of sovereign debt insurance globally, but has widened from 17bps to 26bps over the quarter

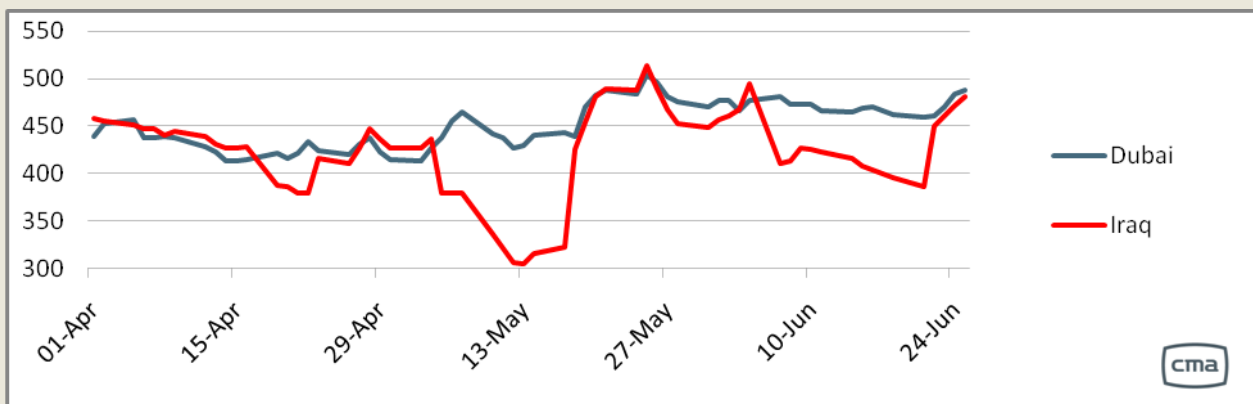


Regional Focus: Middle East & North Africa

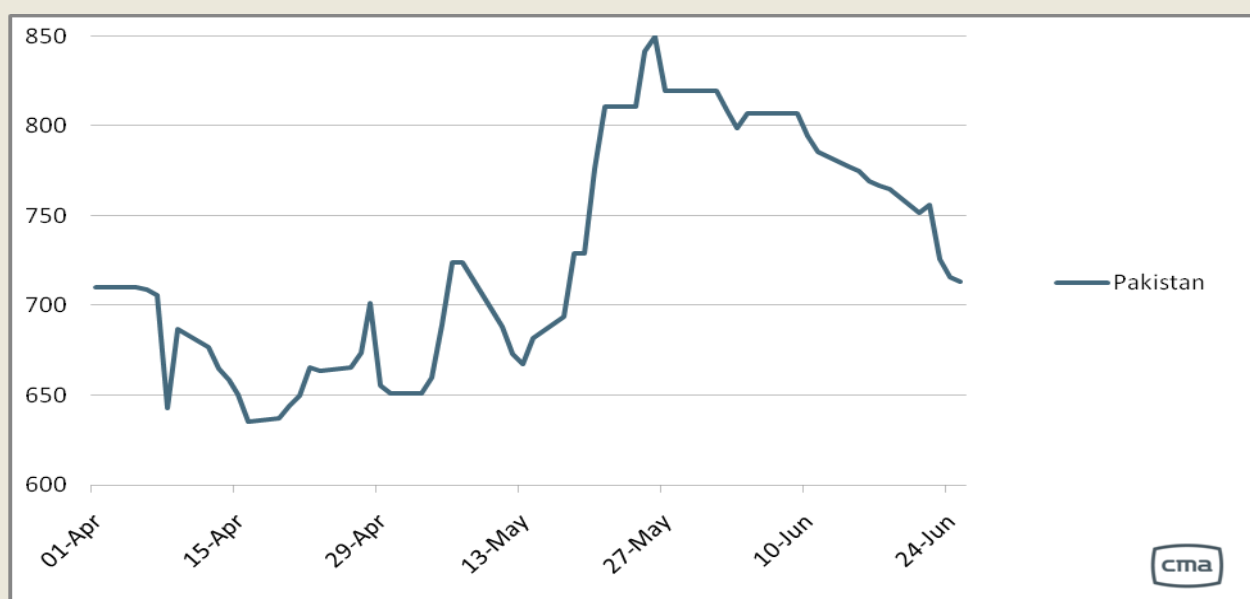
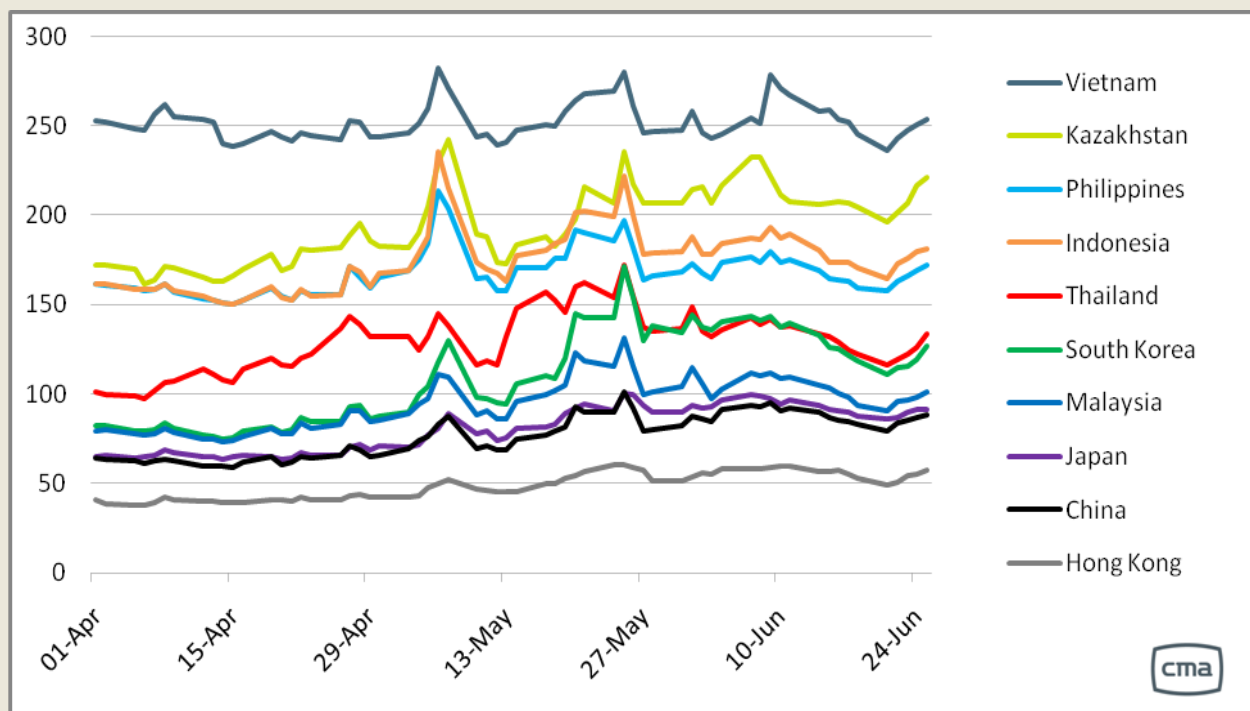


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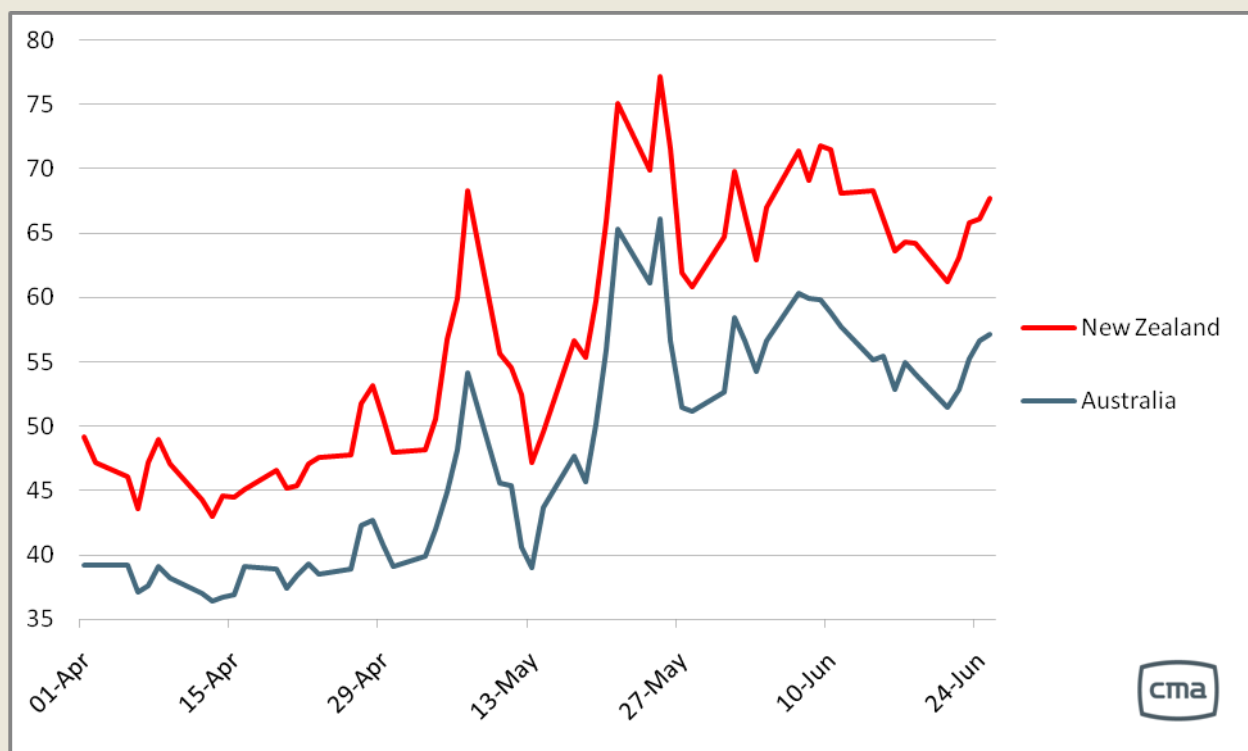
- Turkey's economy is growing fast – it posted a budget surplus in May as tax revenues increased substantially
- Morocco and Tunisia have once again been closely tracking one another this quarter
- The worst performer in the region has been Lebanon, wider by 30.3%
- Egypt, which was the region's weakest performer last quarter has reversed its fortunes, outperforming regional peers and tightening by 15%
- The cost of insuring against a default by Dubai has exceeded that of Iraq this quarter. Dubai now has the most expensive protection costs in the region



Regional Focus: Asia



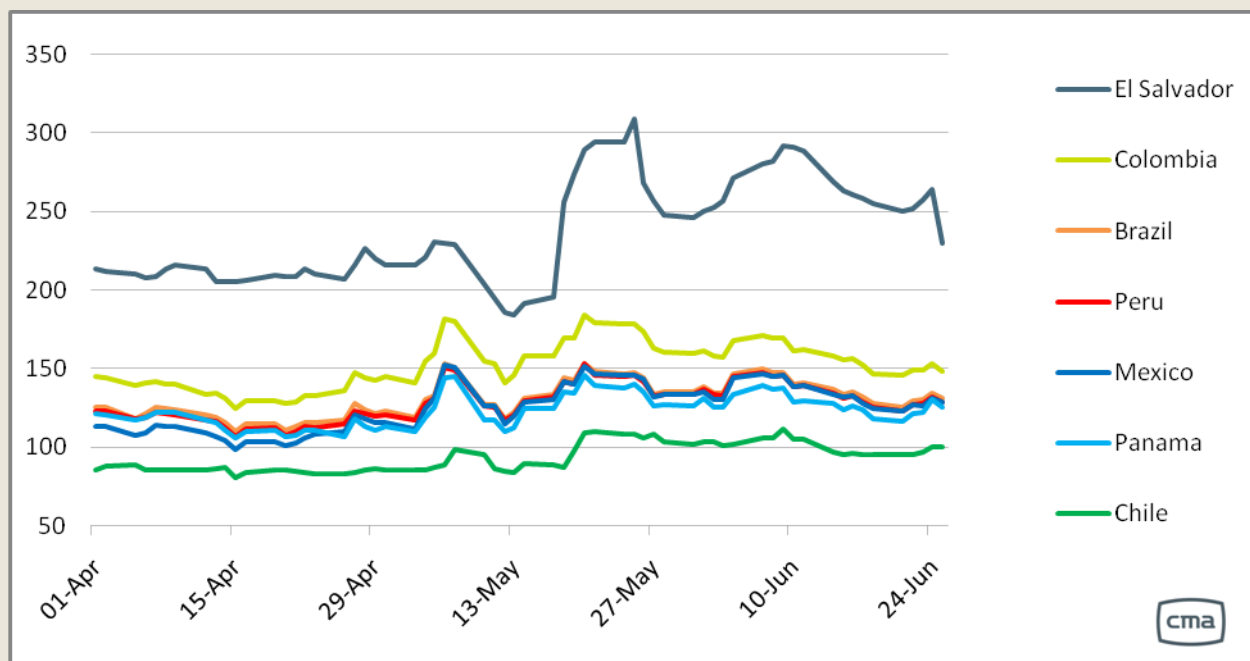
Regional Focus: Australia and New Zealand



Notes

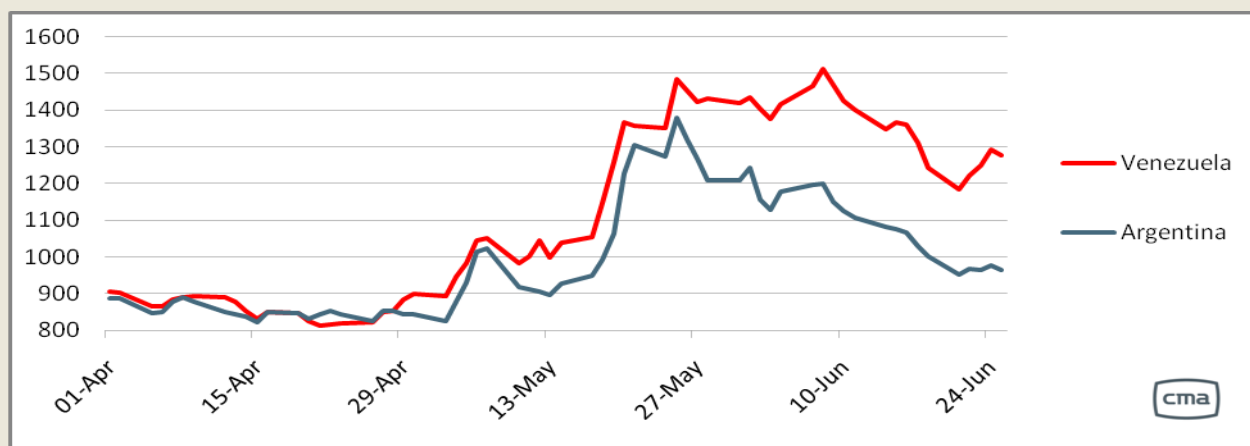
- Resources-focused Australia has implemented a 30% tax on mining companies to boost revenues whilst commodity prices are falling over concerns about the health of the U.S. and Chinese economies
- Australia is viewed as having one of the lowest default risks globally but the costs of insuring its debt has increased by 52.3% this quarter and New Zealand has widened by 42.7%

Regional Focus: Central and South America



Notes

- Venezuela, which was the strongest regional performer over the first quarter was the weakest over the second, widening by 43.9%
- Brazil's central bank raised interest rates in an effort to contain inflation whilst a record amount of lending by Brazil's development bank is contributing to fast economic growth
- The appearance this quarter of CDS referencing Dominican, Uruguayan and Guatemalan is an encouraging sign of wider use of CDS across the region and greater interest in seeking protection on South American names globally. (Not shown on graph)
- Venezuela finishes the quarter as the sovereign with the highest cost of debt protection after jostling for position with Greece over the final weeks of June
- Colombia has been the best performer in the region, widening by just 4.1%
- Mexico, Panama, Brazil and Peru have tracked each other closely this quarter



Global Ranking by CPD

Country	CPD (%)	5yr Mid (bps)	CMA Implied Rating 29 June	CMA Implied Rating Q1
Venezuela	58.4%	1295.6	CMA_ccc-	CMA_ccc+
Greece	53.0%	934.3	CMA_ccc	CMA_bb-
Argentina	48.0%	967.1	CMA_ccc+	CMA_ccc+
Pakistan	39.0%	719.0	CMA_b	CMA_b-
Ukraine	35.7%	624.6	CMA_b	CMA_b
Dubai	29.5%	495.2	CMA_b+	CMA_b+
Iraq	29.0%	476.5	CMA_b+	CMA_b+
Romania	25.4%	410.7	CMA_bb-	CMA_bbb
Portugal	23.6%	310.3	CMA_bb-	CMA_bbb+
Latvia	23.5%	378.6	CMA_bb-	CMA_bb-
Iceland	23.2%	329.8	CMA_bb-	CMA_bb-
Bulgaria	22.5%	357.2	CMA_bb-	CMA_bbb
Hungary	21.5%	341.6	CMA_bb	CMA_bbb+
Ireland	20.8%	266.5	CMA_bb	CMA_bbb+
Spain	20.7%	264.7	CMA_bb	CMA_a
Croatia	20.5%	321.6	CMA_bb	CMA_bbb
Lebanon	20.5%	318.3	CMA_bb	CMA_bb
Dominican Republic	19.4%	295.9	CMA_bb	CMA_bb-
Lithuania	18.2%	282.7	CMA_bb+	CMA_bbb-
Vietnam	16.8%	256.7	CMA_bbb-	CMA_bb
Italy	15.5%	190.1	CMA_bbb	CMA_a
El Salvador	15.1%	228.1	CMA_bbb+	CMA_bb+
Kazakhstan	14.9%	223.8	CMA_bbb+	CMA_bbb+
Egypt	14.4%	216.6	CMA_a-	CMA_bb
Guatemala	13.1%	194.3	CMA_a+	CMA_bb+
Turkey	13.0%	194.1	CMA_a+	CMA_bbb+
Russia	13.0%	193.8	CMA_a+	CMA_a
Costa Rica	12.8%	190.7	CMA_a+	CMA_bbb+
Indonesia	12.5%	185.3	CMA_aa-	CMA_a-
Belgium	12.1%	144.0	CMA_aa-	CMA_aa+
Bahrain	12.0%	178.1	CMA_aa-	CMA_bbb+
Uruguay	11.9%	178.2	CMA_aa-	CMA_bbb
Philippines	11.9%	174.7	CMA_aa-	CMA_a-
South Africa	11.7%	172.7	CMA_aa-	CMA_a+
Thailand	11.4%	134.6	CMA_aa	CMA_a+
South Korea	11.0%	129.1	CMA_aa	CMA_aa
Poland	10.4%	153.5	CMA_aa	CMA_aa

Colombia	10.0%	146.9	CMA_aa	CMA_a-
Brazil	9.4%	137.8	CMA_aa	CMA_a+
Mexico	9.3%	135.1	CMA_aa	CMA_aa
Peru	9.2%	135.4	CMA_aa	CMA_a+
Panama	9.0%	131.5	CMA_aa	CMA_a+
Malaysia	8.9%	103.6	CMA_aa	CMA_aa
Morocco	8.5%	124.6	CMA_aa	CMA_aa
Israel	8.4%	122.0	CMA_aa	CMA_aa
Japan	8.3%	95.6	CMA_aa	CMA_aa+
Estonia	8.3%	120.0	CMA_aa	CMA_aa
Tunisia (Central Bank)	8.2%	119.7	CMA_aa	CMA_aa
Slovakia	8.0%	92.5	CMA_aa	CMA_aa+
China	7.9%	91.2	CMA_aa	CMA_aa+
Austria	7.8%	90.3	CMA_aa	CMA_aa+
France	7.8%	90.2	CMA_aa	CMA_aaa
Abu Dhabi	7.7%	112.7	CMA_aa	CMA_aa
Slovenia	7.6%	87.6	CMA_aa	CMA_aa+
Chile	7.3%	104.9	CMA_aa	CMA_aa+
Czech Republic	7.0%	100.8	CMA_aa	CMA_aa+
United Kingdom	6.6%	75.7	CMA_aa+	CMA_aa
Qatar	6.4%	92.0	CMA_aa+	CMA_aa+
New Zealand	6.1%	70.2	CMA_aa+	CMA_aaa
Australia	5.2%	60.1	CMA_aa+	CMA_aaa
Saudi Arabia	5.0%	72.2	CMA_aa+	CMA_aa+
Hong Kong	4.9%	56.6	CMA_aa+	CMA_aaa
Netherlands	4.4%	50.6	CMA_aa+	CMA_aaa
Switzerland	4.3%	48.4	CMA_aa+	CMA_aaa
Germany	3.9%	44.9	CMA_aaa	CMA_aaa
Sweden	3.7%	42.5	CMA_aaa	CMA_aaa
Denmark	3.6%	40.4	CMA_aaa	CMA_aaa
USA	3.4%	38.6	CMA_aaa	CMA_aaa
Finland	3.1%	35.2	CMA_aaa	CMA_aaa
Norway	2.3%	25.3	CMA_aaa	CMA_aaa

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CMA, the worlds' leading source of independent, accurate OTC credit market data, has unrivalled access to information about what is actually happening in the CDS markets. It combines this unmatched breadth and depth of pricing data with market-leading technology to deliver clear and valuable information to financial institutions around the world.

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If you have questions or comments about this report, or wish to learn more about the products and services that CMA offers, please contact us:

London

Watling House
33 Cannon Street
London
EC4M 5SB

+44 (0) 207 796 5100

New York

370 Lexington Avenue
Suite 701
New York
NY 10017

1 646 351 8787

Singapore

c/o Andrew Meyer
CME Group
#47-01 Singapore Land Tower
048623

+65 6550 9898

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For more information please contact Simon Mott:

Telephone: +44 (0) 207 796 5130

Email: marketing@cmavision.com
info@cmavision.com

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