

### 3<sup>rd</sup> Quarter 2011



Bringing clarity to OTC markets

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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 key 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 Credit Default Swap (CDS) pricing service based on data collected from CMA's consortium of over 35 CDS buy-side firms. CMA Datavision™ is the only CDS pricing service to provide independent, intraday price verification for single name CDS, indices, tranches and quantos.

All spreads shown are five year mid PAR spreads which is not the convention quoted in the market. CDS quoting conventions vary according to market conditions and conventions. The par spread can be computed consistently across all credits allowing cross comparison. Unless otherwise stated, data is from the 29<sup>th</sup> September 2011 close. Record highs are determined by using closing values and do not factor in intraday highs.

**Cumulative Probability of Default** (CPD) quantifies the probability of a country being unable to honour its debt obligations over a given time period. For sovereign CDS, this typically includes the probability of a restructuring of debt. Unless otherwise stated, all values are for the five year CPD. CPD is calculated using an industry standard model and proprietary credit data from CMA Datavision™.

Reference to 'risky' is purely in terms of the probability of default derived from the price of the CDS.

**CMA Implied Ratings** are calculated using a proprietary model developed by CMA and input with CDS pricing data from CMA Datavision™.

**Data Access:** CMA provides independent, intraday pricing on approximately 1,400 single name CDS and CDS Indices. Widely used by traders, risk managers, treasurers and researchers in financial institutions across the world, CDS data is available directly from CMA or via our strategic channel partners. For more information about how CMA can help you effectively monitor and manage your credit exposures please contact us at [info@cmavision.com](mailto:info@cmavision.com)

## Changes in CMA Sovereign Debt Coverage

### Additions:

- Switzerland has been added to this report, but liquidity remains thin with Bid/Ask spreads averaging 17bp over the quarter.

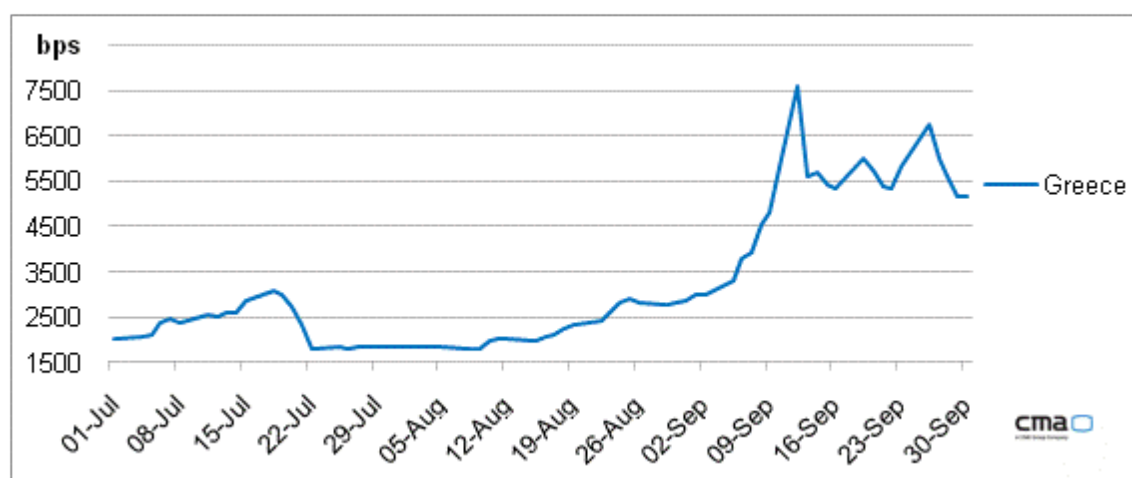
## Top 10 Most Risky

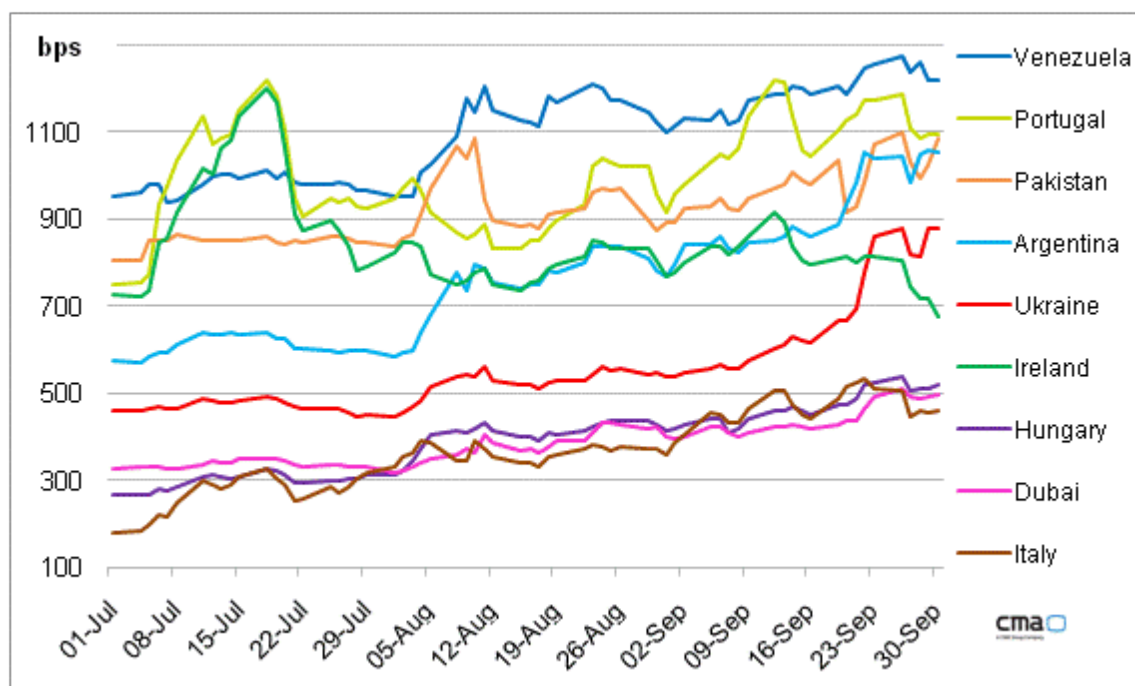
Position Q3	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	<b>Greece</b>	90.6%	CMA_cc-	5156.92 (U.F)	1 (No Change)
2	<b>Portugal</b>	61.3%	CMA_ccc-	1165.42	3 (Down 1)
3	<b>Venezuela</b>	58.7%	CMA_ccc-	1195.87	2 (Up 1)
4	<b>Argentina</b>	53.2%	CMA_ccc	1044.92	6 (Down 2)
5	<b>Pakistan</b>	51.8%	CMA_ccc+	1023	5 (No Change)
6	<b>Ukraine</b>	46.9%	CMA_ccc+	870.28	7 (Down 1)
7	<b>Ireland</b>	46.2%	CMA_b-	754.39	4 (Up 3)
8	<b>Italy</b>	33.3%	CMA_b+	453.1	New Entry
9	<b>Hungary</b>	30.7%	CMA_bb-	501.35	New Entry
10	<b>Dubai</b>	30.4%	CMA_bb-	490.49	10 (No Change)

Note: CPD is a function of the recovery level which varies according the several factors and distance to default. i.e. emerging markets assume 25%, Greece is now 32%, others 40%.

Italy and Hungary entered the top 10 most risky sovereigns as the cost of protection rose significantly across all global credit markets. This quarter saw downgrades in the U.S., Japan and Italy, as well as a slowdown of growth in China and Eurozone debt concerns affecting the broader region.

- The markets are pricing in an almost certain default event in Greece as the upfront cost of protection peaked at 63% vs. 100 coupon – implying a recovery level below 40% (CMA now assume 32% recovery). The cheapest bonds are trading in the low-to-mid 30% according to CMA Datavision™ Bonds.
- Spreads in Italy widened, trebling from 171bp to over 500bp on September 26<sup>th</sup> and dipping below 500bp following the German parliament's approved enlargement of the EFSF. The widening has been gradual throughout the quarter, rather than being precipitated by rating downgrades. Market participants appeared to react to concerns about the high debt-to-GDP ratio and whether austerity packages would be enough to reduce debt.
- Hungary also enters the top 10, although it is riskier than Spain, a lower recovery assumption (25%) for emerging market countries means it has a lower default probability than Spain.
- Venezuela, Argentina, Pakistan and Ukraine remain in the top 10 riskiest as emerging market economies come under pressure this quarter.
- Bank of Ireland, Irish Life and Permanent follow Allied Irish in declaring credit events this quarter. However, Ireland's position in the top 10 risky table improves as a revival in the economy begins to emerge.



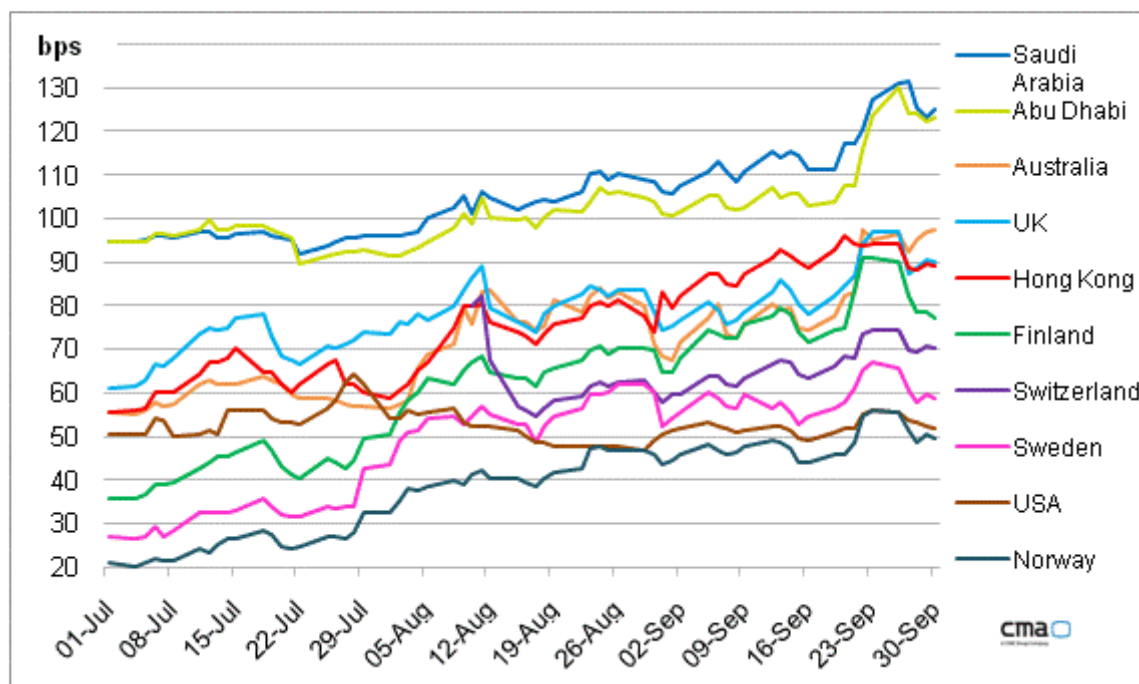


## Top 10 Least Risky

Position Q4	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	Norway	4.4%	CMA_aa+	50.25	1 (No Change)
2	USA	4.6%	CMA_aa+	52.44	7 (Up 5)
3	Sweden	5.1%	CMA_aa+	59.4	2 (Down 1)
4	Switzerland	6.2%	CMA_aa+	70.9	New Entry
5	Finland	6.8%	CMA_aa+	79.14	3 (Down 2)
6	Hong Kong	7.7%	CMA_aa	89.8	8 (Up 2)
7	UK	7.8%	CMA_aa	90.13	New Entry
8	Australia	8.3%	CMA_aa	97.51	9 (Up 1)
9	Saudi Arabia	8.4%	CMA_aa	122.91	New Entry
10	Abu Dhabi	8.4%	CMA_aa	122.09	New Entry

For the first time since the end of the Q2 2010 there is a change to top three least risky. Norway, Sweden and Finland where largely been unaffected by Eurozone debt issues up until this quarter. However, this quarter's global widening of credit has affected all countries in a manner similar to the credit crunch of 2008.

- Norway remains the least most risky credit by just 1bp as spreads widen from 21bp to 54bp.
- The U.S. jumps from seventh to the second least risky. The U.S. downgrade was already factored in by the credit markets in Q2 2011 as evidenced by its CDS Implied Rating of 'CMA\_aa+', calculated by CMA last quarter. However, the actual downgrade of the world's largest economy to AA+ was not expected by the equity market (it was the first time in history that the U.S. has not been rated 'AAA') and precipitated a sell-off in global equity markets in August.
- Switzerland re-enters our report but liquidity remains thin, with nine contributions since mid-August with an average bid/ask spread of 17bp.
- The U.K. and Saudi Arabia enter the top 10 by virtue of the fact that Germany, Netherlands and Denmark exit the top 10 as their spreads widen from sub 45bp to well above 100bp.



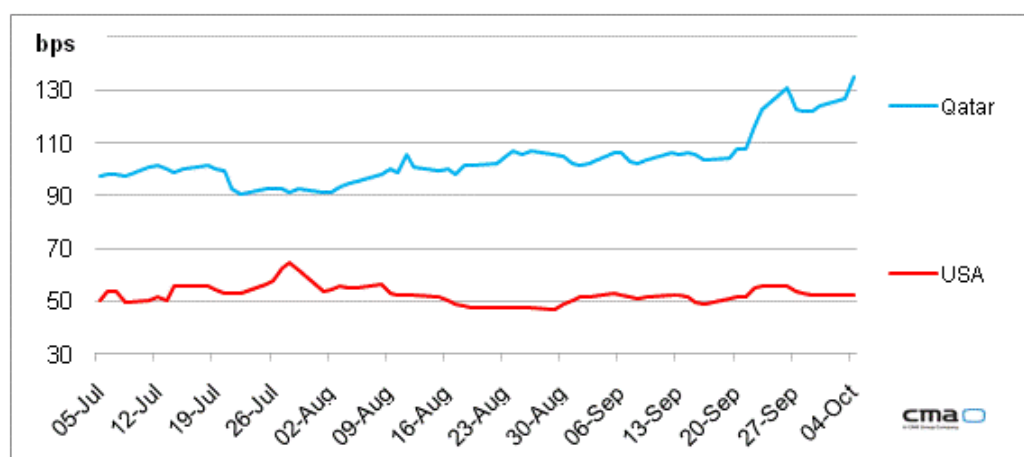
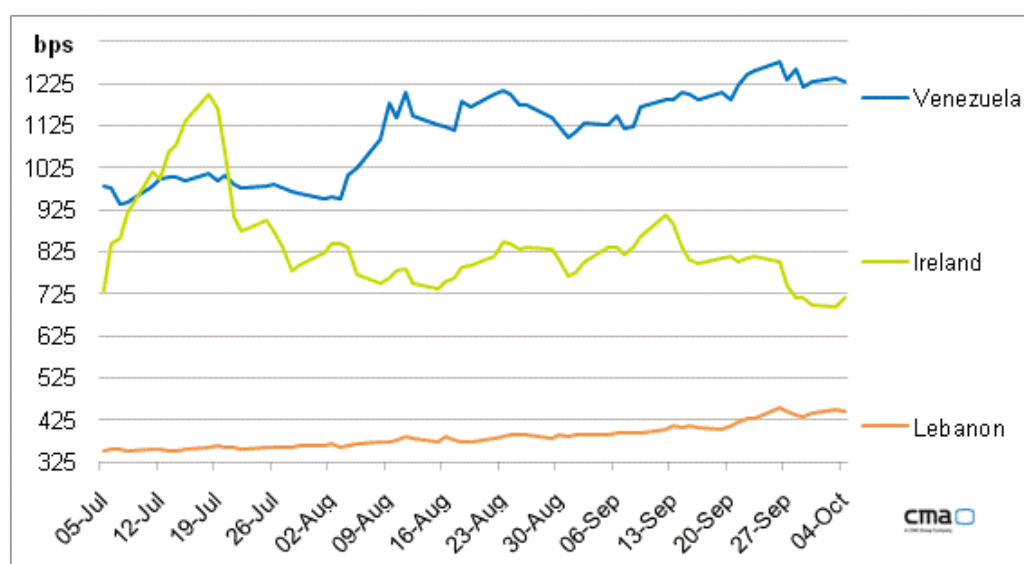


## Best Quarterly Performances – Percentage Change

Country	5yr Mid 30 <sup>th</sup> Jun bps	5yr Mid 29 <sup>th</sup> Sep bps	Change %
<b>Ireland</b>	791.6	754.4	-4.7
<b>U.S.</b>	50.5	52.4	+3.8
<b>Venezuela</b>	987.9	1195.9	+21.0
<b>Lebanon</b>	351.0	429.7	+22.4
<b>Qatar</b>	97.8	122.8	+25.6

The 'Best Quarterly Performances' during 2011 Q3 can more accurately be defined as the 'least worst quarterly performances'.

- The cost of Ireland's debt protection tightened 37bp, the only credit to tighten in Q3.
- U.S. spreads remained very stable during the quarter, widening only 2bp, as much of the downgrade was already priced into the cost of protection last quarter. The short-end also tightened, indicating receding fears of a technical default.
- Qatar and Lebanon both widen by 20-30%, but make the best quarterly performance table – a sign of the scale of the widening in global credit this quarter and the challenges facing the G20 and the IMF to avoid a global recession similar to 2008.

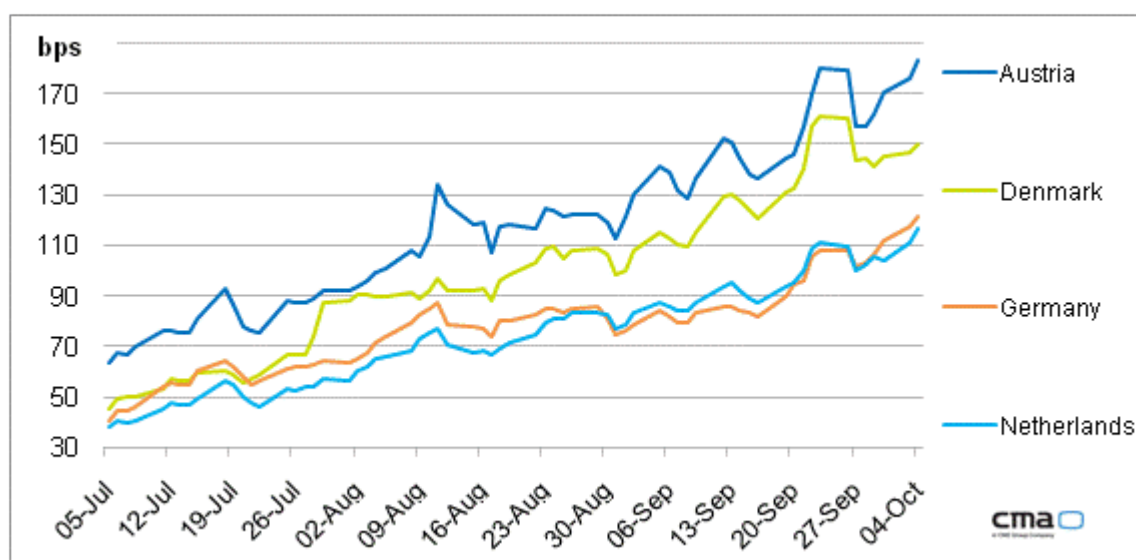
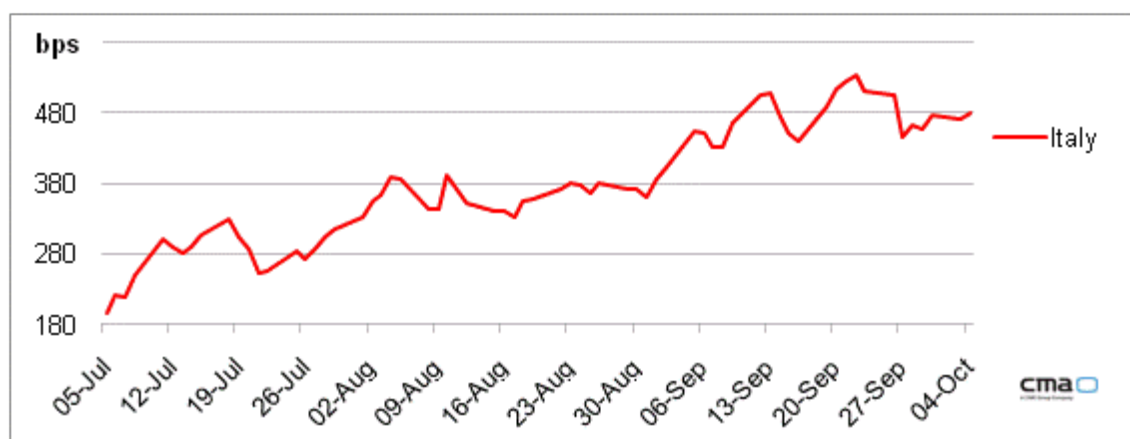


## Worst Quarterly Performances – Percentage Change

Country	5yr Mid 30 <sup>th</sup> Jun bps	5yr Mid 29 <sup>th</sup> Sep bps	Change %
<b>Denmark</b>	44.5	140.7	+216.6
<b>Netherlands</b>	38.0	104.9	+175.9
<b>Italy</b>	170.8	453.1	+165.2
<b>Austria</b>	61.7	160.3	+160.0
<b>Germany</b>	40.9	105.7	+158.4

Eurozone debt concerns widened across the region this quarter with the market implying the size and potential cost of the bail out will affect all countries in the region.

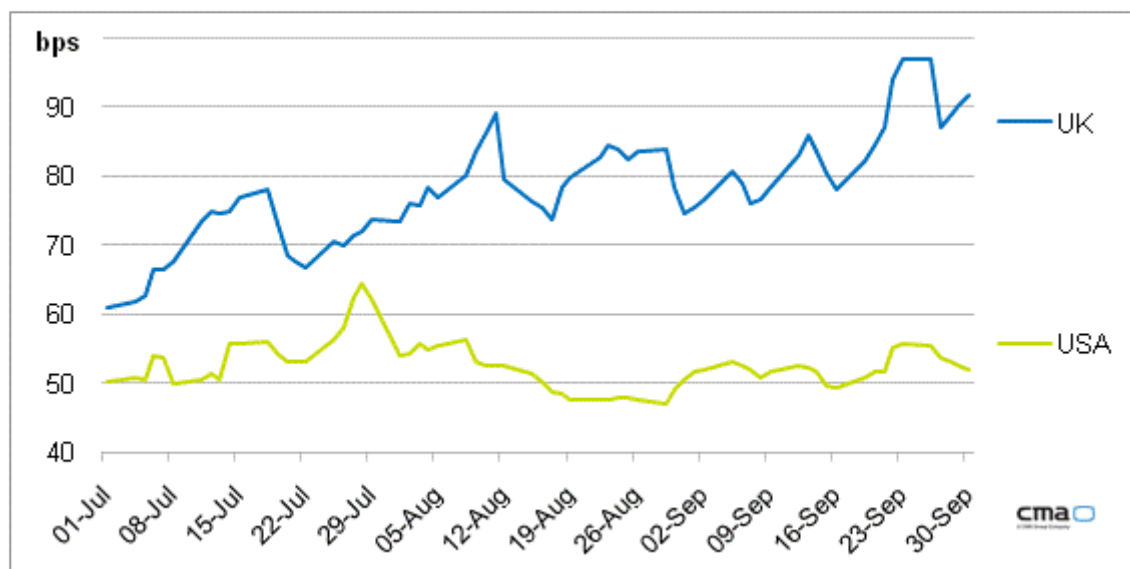
- Denmark, a large exporter to the Eurozone, was the worst performer in percentage terms widening to 141bp from 44.5bp.
- Germany continued to widen after the approval of an extension to EFSF, reaching 111bp on the 30<sup>th</sup> September.





## Regional Focus: U.S. & U.K.

- The U.S. downgrade precipitated a global sell-off in equities in August. The CDS market was unchanged on the day as the move was already priced in.
- In the case of the U.S. credit risk, which is the basis for the concept of 'risk-free' and the foundation of finance theory, the downgrade created a panic in August and the potential impact the move would have on the markets.
- The U.K. managed trade in the 70-90bp range for the most of the quarter, only to be dragged outside the 90bp range in September following the global buying of protection.

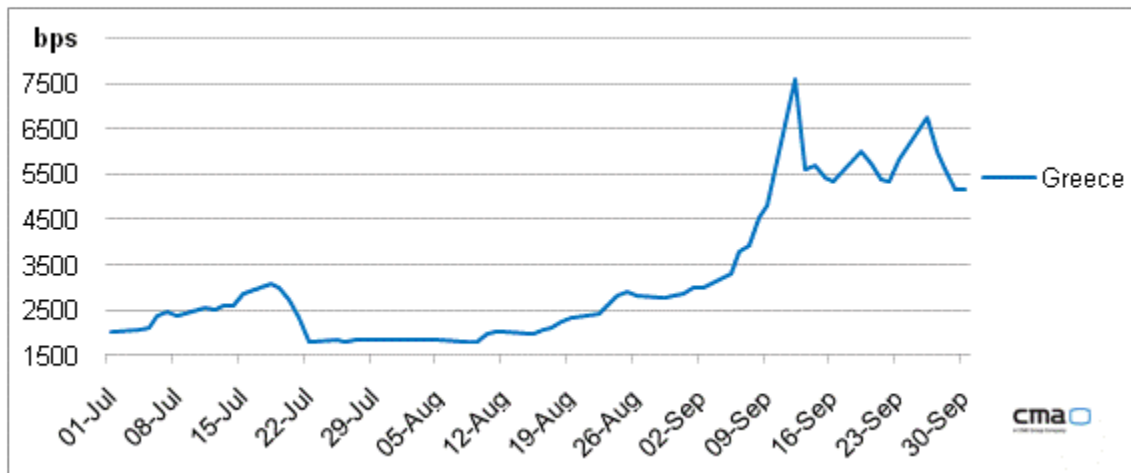


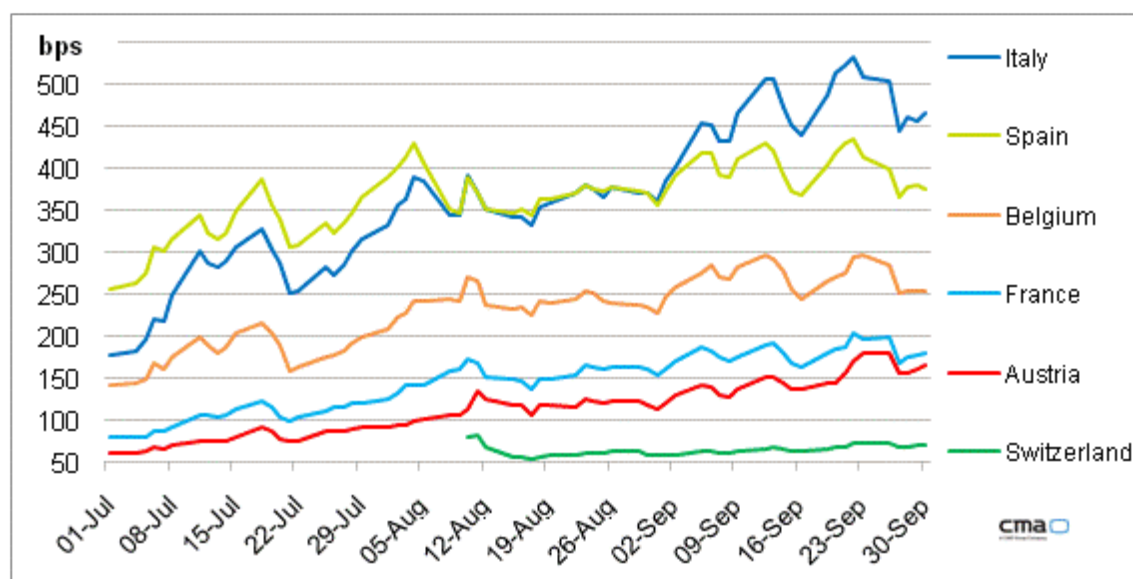
## Regional Focus: Western Europe

Western Europe continues to face a challenging year as the debt crisis continues to deepen. Continued talk of Greek bail outs, downgrades in Italy and Spain and concerns from the U.S. about how the crisis is being handled did little to help market sentiment for European debt with the Euro currency also facing selling pressure. The extension of the EFSF helped the market, but spreads remain very wide, suggesting the market may take some time to assess the cost and the speed at which the enlarged EFSF can help Europe's cost of debt protection to stabilise.

CDS quanto spreads imply FX devaluation factors range between 3-27%, depending on the country.

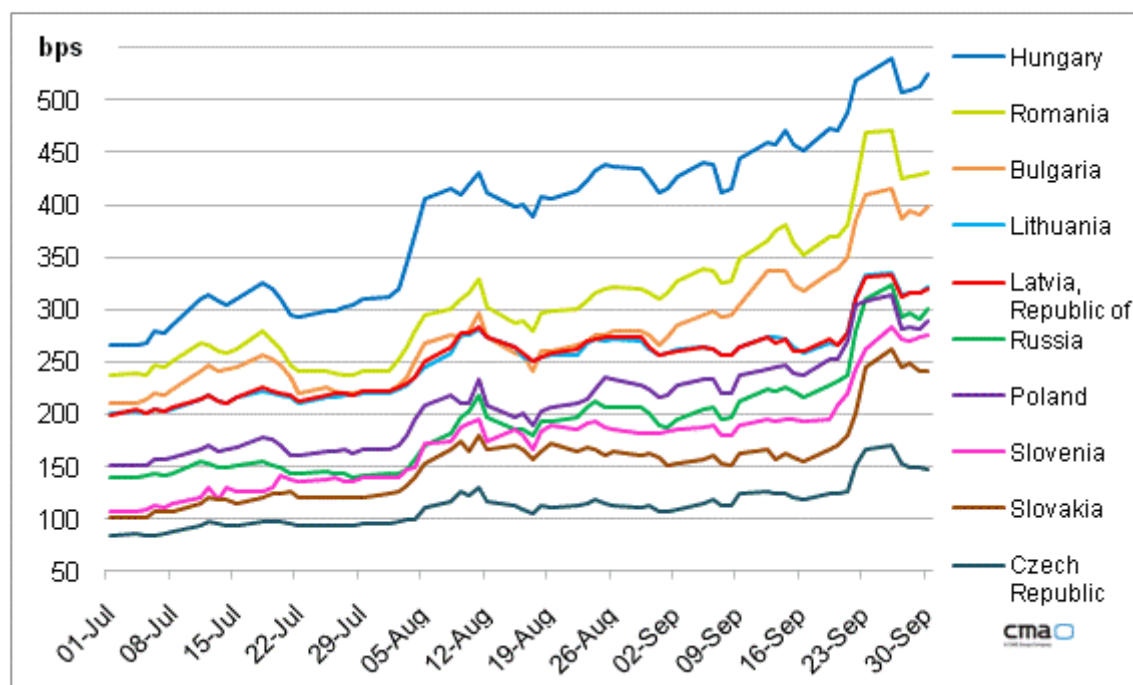
- Parliament approval of austerity measures did little to help Italy, downgraded by one notch this quarter and widening to 454bp, implying a 1-in-3 chance of a restructuring within five years.
- Greece trades at levels above where market conventional spreads (quote spreads) cannot be computed and moved to be quoted on an 'Upfront' basis only. Recovery levels drop below 40%, with the market implying around 30-33% recovery on senior debt.
- Concerns on the French bank's holdings of Greek debt weigh on CDS spreads in France, which widened nearly 100bp this quarter.
- Some liquidity returned to Switzerland which remained relatively stable, but Bid/Ask spreads remain wide.





## Regional Focus: Emerging Europe

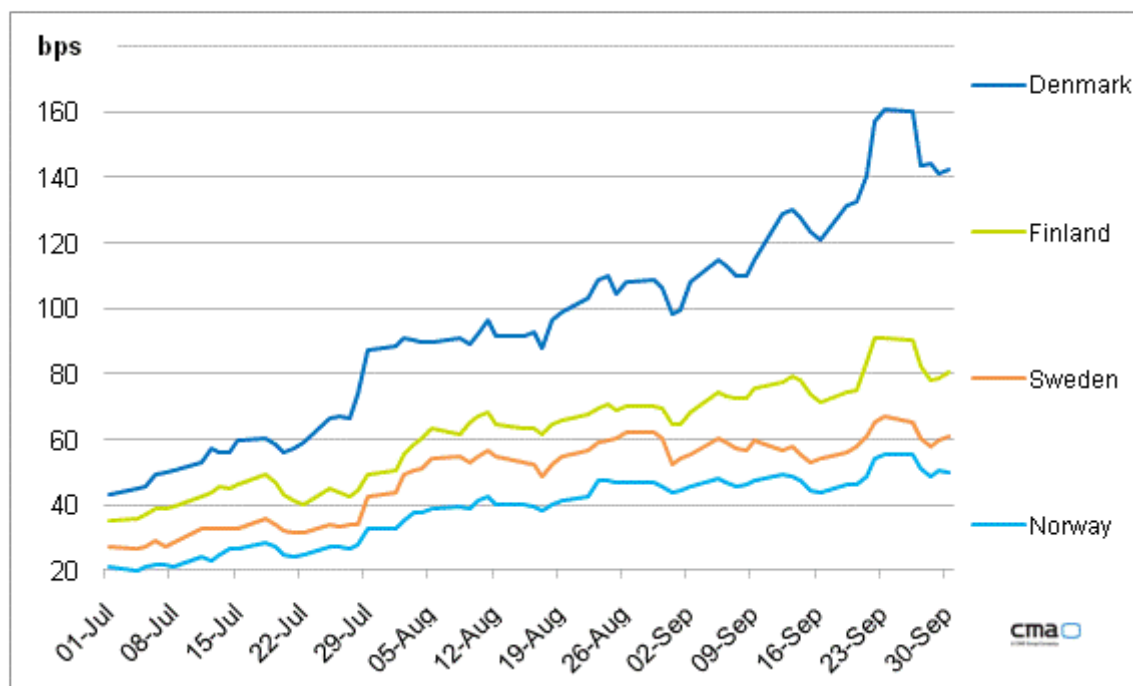
- Hungary's CDS levels surpassed 500bp, as the increasing cost of Swiss Franc mortgages being taken out in the country make headlines.
- Spreads in the region remained relatively calm throughout the quarter, except for the last two weeks of September where cost of protection rose globally.



## Regional Focus: Scandinavia & Nordic Region

The cost of protection in Scandinavia, a very stable region in previous quarters soared this quarter, perhaps implying that bail outs may also require the assistance from this region.

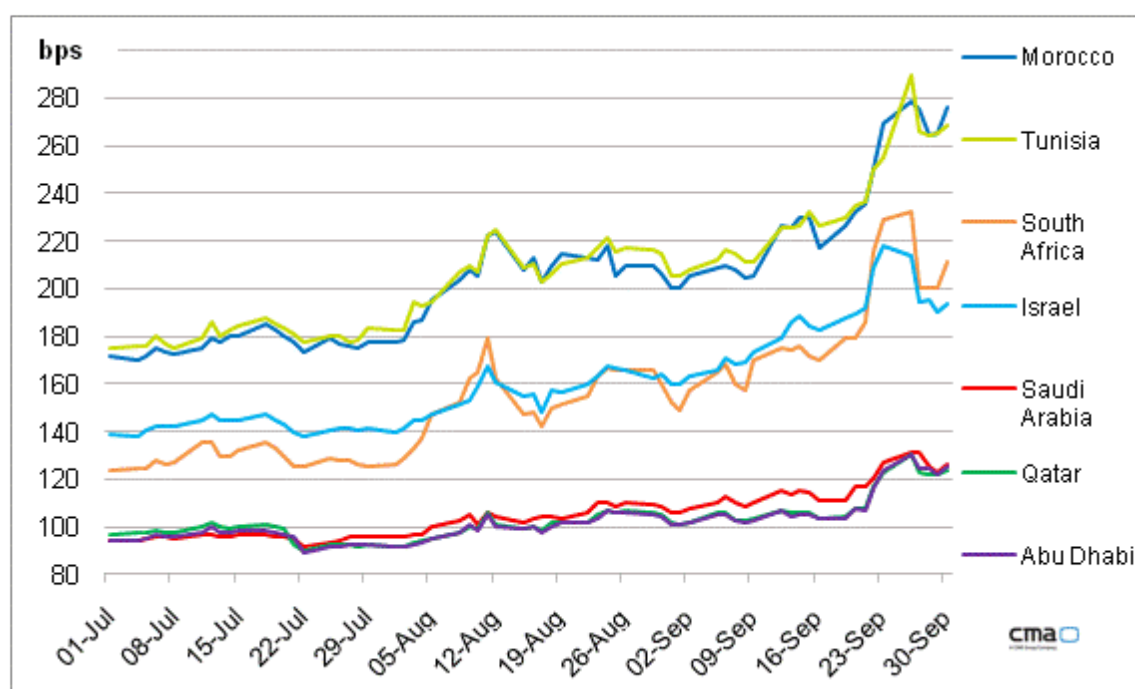
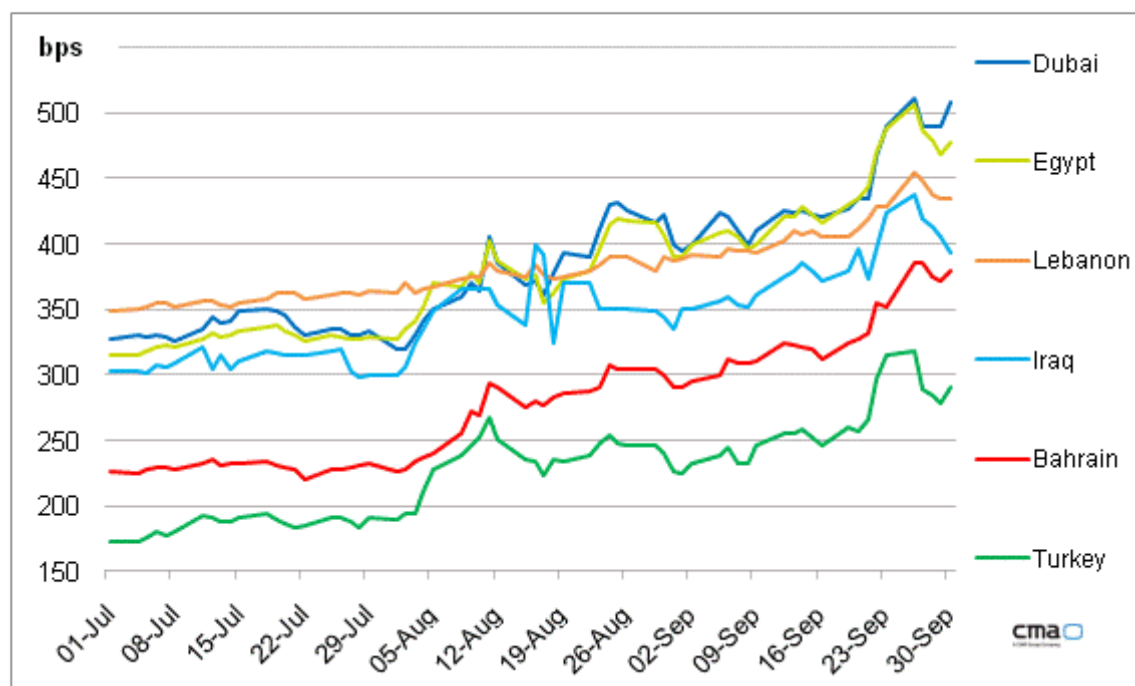
- Denmark, a large exporter to the Eurozone, widened 251% this quarter to 140bp, topping the worst performer table.
- Norway and Sweden, resilient in recent quarters to global events, could not escape the events in Q3 2011 and also widened significantly.



## Regional Focus: Middle East & North Africa

The Middle East observed gradual widening of spreads this quarter as the emerging markets in general saw a gradual reduction of risk by the market in Q3. All spreads spiked up in the last week of September.

- CDS spreads in Turkey rose above 300bp in Q3 as the fiscal policies and ambition to continue double digit growth may be at odds with a general slowdown of growth and weaker domestic demand.
- Qatar and Abu Dhabi remain relatively stable, with Abu Dhabi entering the top 10 least risky table.
- Bahrain widened steadily throughout the quarter, closing well over 350bp.

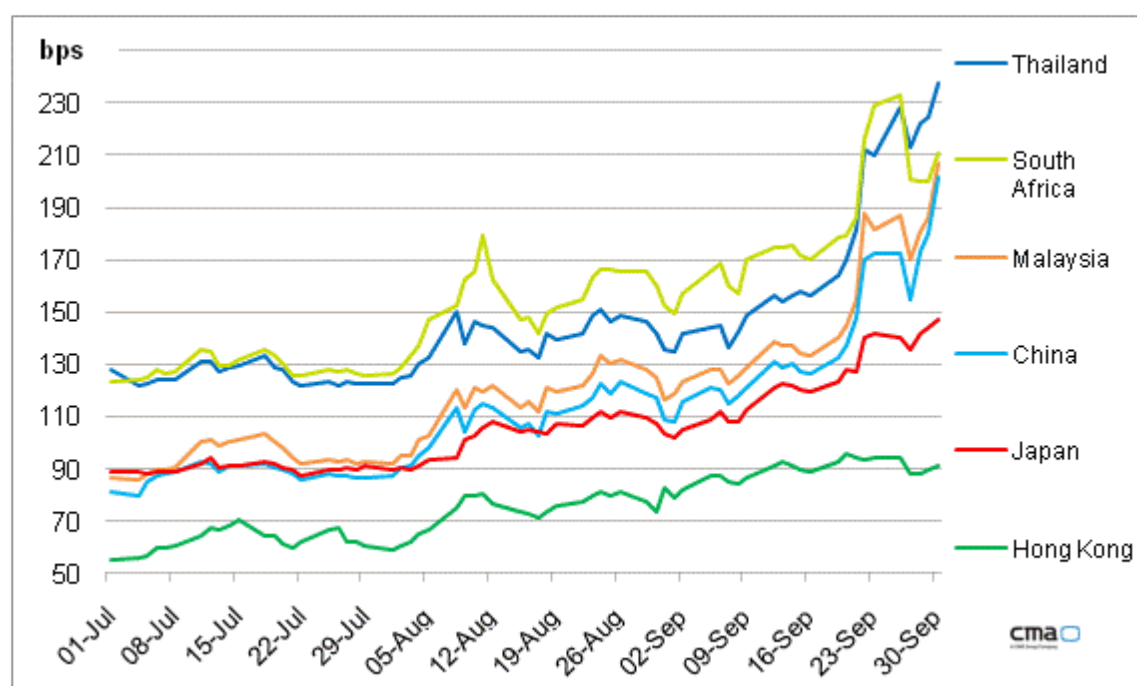
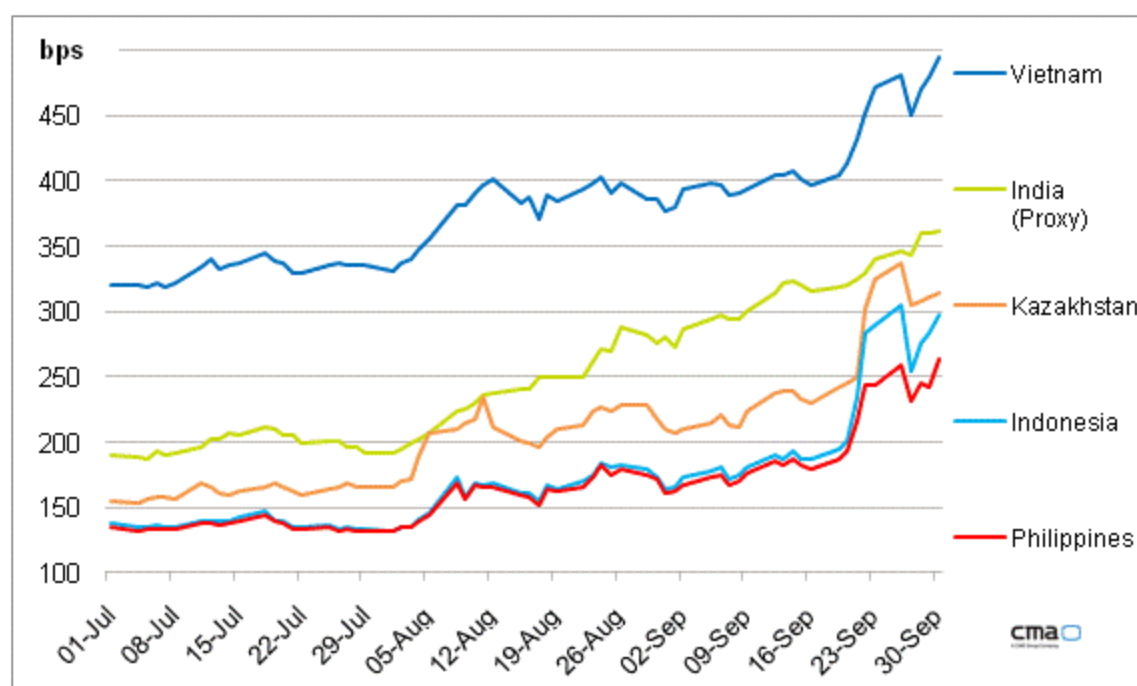




## Regional Focus: Asia

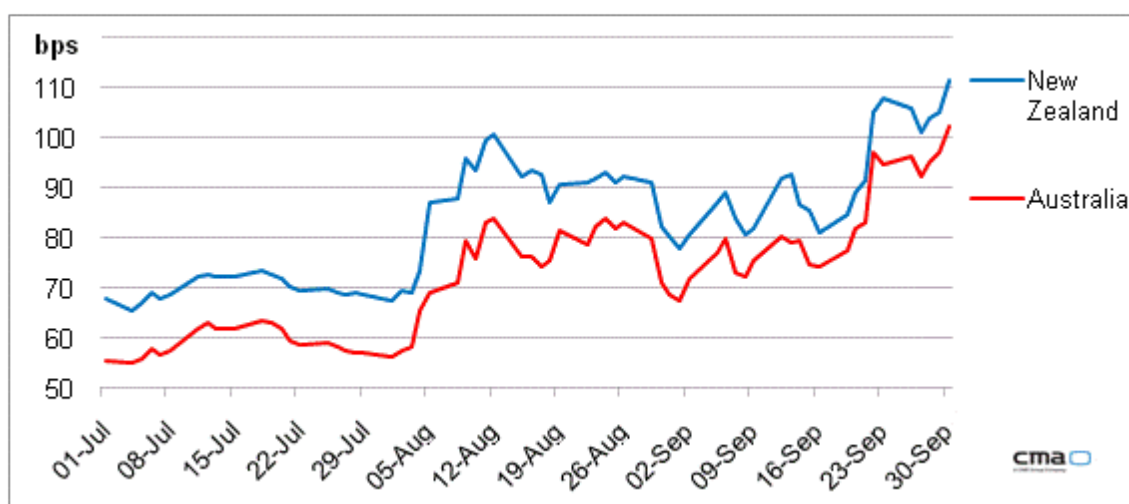
- China saw a sharp increase in the cost of protection on the 30<sup>th</sup> September, to close at 196bp as a slump in the value of property stocks and the threat of a world recession are having a negative impact on growth prospects.
- Indonesia, Kazakhstan and Vietnam also saw sharp rises at the end of September.
- A downgrade in Japan at the end of August had little effect on markets, but September saw a series of sharp rises in the cost of protection, seeing a 40% rise in less than a month to close the quarter at 142bp.
- India on the other hand sees a much a more steady rise.

*Note: State Bank of India is used as proxy for India.*



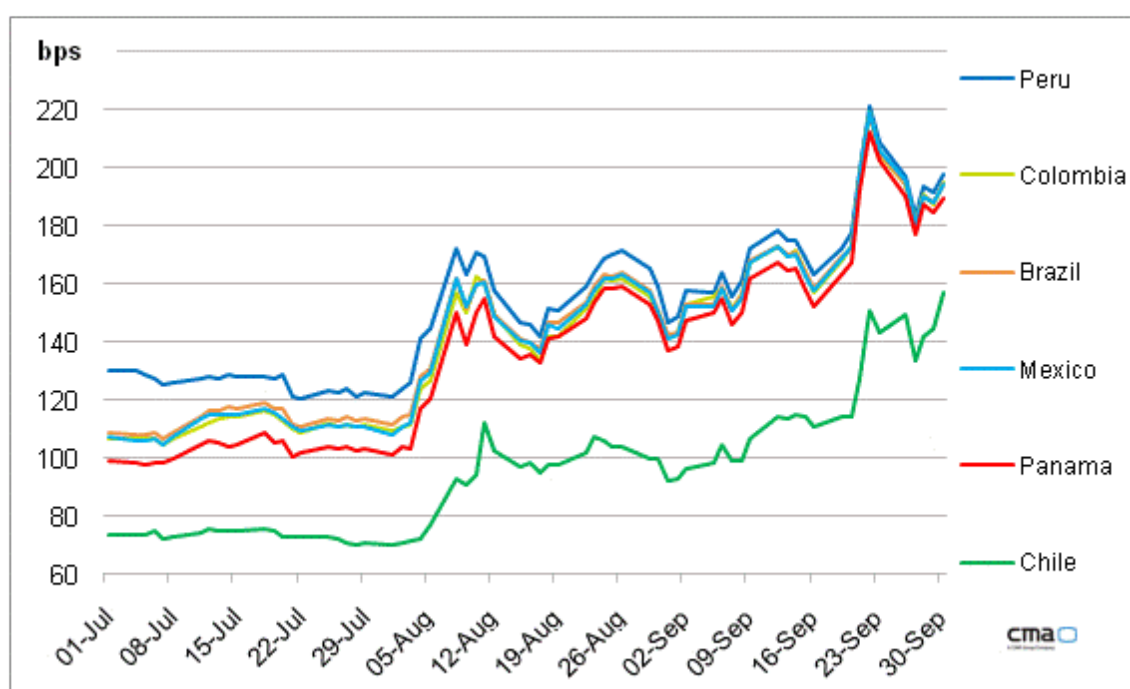
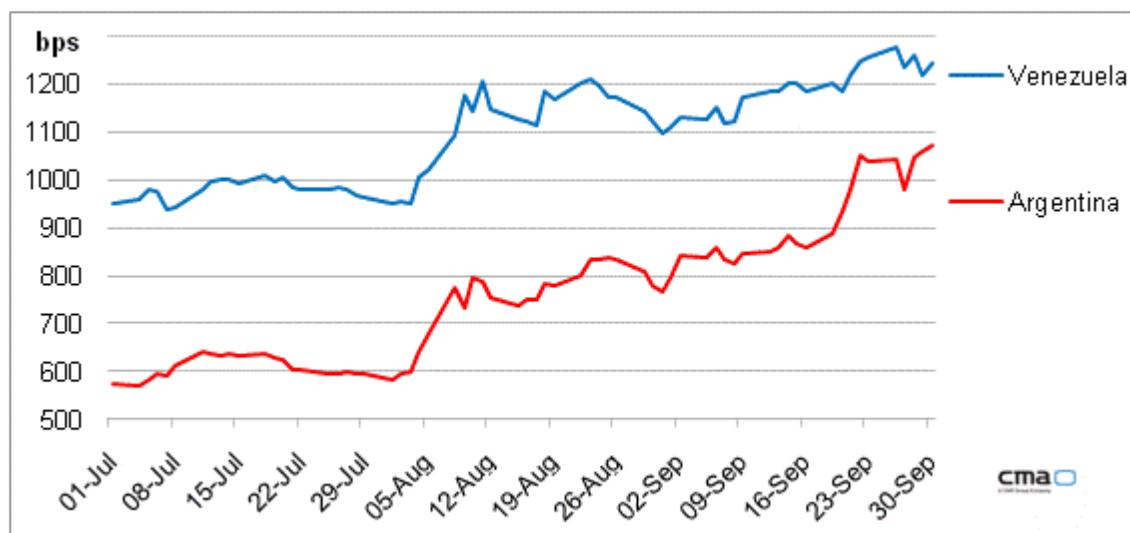
## Regional Focus: Australia & New Zealand

- A slowdown in China and the deepening crisis in Europe, saw a dramatic sell-off of commodities towards the end of the quarter and a widening of spreads.
- The cost of protection in Australia and New Zealand nearly doubled this quarter, perhaps signalling the five year boom in the region could be slowing down.
- New Zealand was also hit by a double rating downgrade, to AA on the last day of the quarter (CMA Implied Rating was unchanged from that of Q2 2011 at CMA\_aa).



## Regional Focus: Central & South America

- A stable period in July was followed by two months of extreme volatility caused by the downgrade of the U.S. to AA+ followed by the European debt crisis at the end of September.
- Chile was the worst performer as copper prices collapsed, however their spreads started the quarter at only 20bp wider than the U.S. so were subject to a certain degree of profit taking.
- Brazil spreads closed at 200bp on the 30<sup>th</sup> September, as the Brazilian Real finally sees a sell-off.



## Global Ranking by CPD

Country	CPD (%)	5yr Mid (bps)	CMA Implied Rating 29 <sup>th</sup> September 2011	Previous CMA Implied Rating from Q2 2011
Greece	90.6%	5156.92	CMA_cc-	CMA_cc-
Portugal	61.3%	1165.42	CMA_ccc-	CMA_ccc
Venezuela	58.7%	1195.87	CMA_ccc-	CMA_ccc
Argentina	53.2%	1044.92	CMA_ccc	CMA_ccc
Pakistan	51.8%	1023	CMA_ccc+	CMA_ccc+
Ukraine	46.9%	870.28	CMA_ccc+	CMA_b-
Ireland	46.2%	754.39	CMA_b-	CMA_b+
Italy	33.3%	453.1	CMA_b+	CMA_bb-
Hungary	30.7%	501.35	CMA_bb-	CMA_bb
Dubai	30.4%	490.49	CMA_bb-	CMA_bb
Vietnam	30.1%	466.8	CMA_bb-	CMA_bb
Croatia	29.7%	484.91	CMA_bb-	CMA_bb
Egypt	28.5%	457.33	CMA_bb	CMA_bb
Spain	28.2%	372.67	CMA_bb	CMA_bb
India (Proxy)	27.6%	360.87	CMA_bb	CMA_bb+
Lebanon	26.6%	429.68	CMA_bb	CMA_bb+
Romania	26.2%	420.19	CMA_bb	CMA_bbb-
Iraq	25.4%	406.23	CMA_bb+	CMA_bbb-
Iceland	24.6%	295.4	CMA_bb+	CMA_bbb+
Bulgaria	24.4%	384.03	CMA_bb+	CMA_bbb-
Bahrain	23.3%	368.11	CMA_bb+	CMA_bbb
Belgium	20.3%	255.11	CMA_bbb	CMA_bbb
Latvia	20.2%	312.43	CMA_bbb	CMA_bbb
Lithuania	20.2%	312.53	CMA_bbb	CMA_bbb+
Costa Rica	20.1%	310.6	CMA_bbb	CMA_bbb+
Kazakhstan	19.9%	307.65	CMA_bbb	CMA_bbb+
Indonesia	19.5%	276.94	CMA_bbb	CMA_bbb+
Russia	18.8%	287.12	CMA_bbb	CMA_bbb+
Thailand	18.5%	224.57	CMA_bbb	CMA_bbb+
Poland	18.1%	277.72	CMA_bbb+	CMA_a-
Turkey	18.0%	274.99	CMA_bbb+	CMA_a-
Slovenia	17.7%	270.56	CMA_bbb+	CMA_a-
Tunisia (Proxy)	17.2%	262.68	CMA_bbb+	CMA_a-
Morocco	17.2%	263.48	CMA_bbb+	CMA_a-
Philippines	17.1%	239.62	CMA_bbb+	CMA_a-
South Korea	16.1%	194.08	CMA_a-	CMA_a-
Slovakia	15.8%	239.09	CMA_a-	CMA_a
Malaysia	15.4%	185.83	CMA_a-	CMA_a
Uruguay	15.2%	230.5	CMA_a-	CMA_a+
China	14.9%	178.6	CMA_a-	CMA_a+

France	14.6%	175.93	CMA_a-	CMA_a+
Austria	13.5%	160.31	CMA_a	CMA_a+
South Africa	13.4%	198.84	CMA_a	CMA_a+
Peru	12.8%	190.23	CMA_a+	CMA_a+
Israel	12.8%	189.21	CMA_a+	CMA_a+
Colombia	12.6%	186.32	CMA_a+	CMA_a+
Brazil	12.6%	186.62	CMA_a+	CMA_a+
Mexico	12.5%	185.79	CMA_a+	CMA_aa-
Panama	12.3%	182.85	CMA_a+	CMA_aa-
Denmark	11.8%	140.73	CMA_a+	CMA_aa-
Japan	11.3%	143.15	CMA_aa-	CMA_aa-
Estonia	10.2%	150.9	CMA_aa-	CMA_aa-
Chile	10.1%	148.12	CMA_aa	CMA_aa
Czech Republic	10.1%	148.2	CMA_aa	CMA_aa
Germany	9.0%	105.69	CMA_aa	CMA_aa
Netherlands	9.0%	104.93	CMA_aa	CMA_aa
New Zealand	8.9%	105.02	CMA_aa	CMA_aa
Qatar	8.4%	122.78	CMA_aa	CMA_aa+
Abu Dhabi	8.4%	122.09	CMA_aa	CMA_aa+
Saudi Arabia	8.4%	122.91	CMA_aa	CMA_aa+
Australia	8.3%	97.51	CMA_aa	CMA_aa+
UK	7.8%	90.13	CMA_aa	CMA_aaa
Hong Kong	7.7%	89.8	CMA_aa	CMA_aaa
Finland	6.8%	79.14	CMA_aa+	CMA_aaa
Switzerland	6.2%	70.9	CMA_aa+	CMA_aaa
Sweden	5.1%	59.4	CMA_aa+	CMA_aaa
USA	4.6%	52.44	CMA_aa+	CMA_aaa
Norway	4.4%	50.25	CMA_aa+	CMA_aaa

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## About CMA & Contact Details

CMA, the world's 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.

CMA is a wholly owned subsidiary of CME Group ([www.cmegroup.com](http://www.cmegroup.com)), the world's largest and most diverse derivatives exchange.

### CMA Datavision™

CMA Datavision™ is our intraday and end-of-day CDS pricing service, delivering independent, timely and accurate consensus-based pricing on OTC credit instruments. CMA provides pricing on approximately 1,400 single name CDS and CDS indices.

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