

CDO/CDS Update 10/11/06

Note: Going forward the *CDO/CDS Update* will be published on a bi-weekly basis. The next edition is expected during the week of October 23rd.

I. Commentary

Despite oil prices falling to under \$60 per barrel, the credit markets edged slightly wider last week. Employment numbers were mixed as non-farm payrolls showed an increase of just 51,000 jobs compared to expectations of 120,000. However, the previous two months of data were upwardly revised higher than expectations partially offsetting the weak September figure. In addition, the unemployment rate moved to 4.6% from 4.7% in August. The North Korean nuclear test added to geopolitical uncertainty and pushed South Korean 5-year CDS spreads on SK Telecom and Kookmin Bank about 4 bps wider to 28 and 27 bps, respectively. In the coming weeks, much of the focus will remain on the release of third quarter corporate earnings.

Index spreads in North America moved slightly wider week-over-week. The Investment Grade Series 7 index ended last week at 41.3 bps, wider by 1 bp. The HVOL index performed the best, remaining relatively flat with a week-end closing spread of 86.8 bps. The Na crossover index was almost 2 bps wider to 173.9 bps and the new High Yield Series 7 index was .6 bps wider to 325.6 bps. Results in Europe were mixed, as the iTraxx Europe 6 index was slightly wider to close at 30.4 bps and the Europe HVOL index moved slightly tighter to 57.25 bps. The European crossover index witnessed widening of 2.4 bps to 289.3 bps. The index with the most widening was the Emerging Markets index, as levels gapped 14.3 bps to 162.2 bps.

The ABX.HE index saw its credit curve steepen, as the AAA and AA-rated tranches witnessed slight tightening, but the A to BBB- tranches saw widening of 2.2 – 8.5 bps. The opposite could be said of the CMBX index, as the AAA to A tranches traded within 2 bps and the BBB and BBB- pieces were 7 and 11.5 bps tighter, respectively, on the week. It appears that the CMBX index is trading tighter as we approach the roll to Series 2 on October 25.

Amkor Tech finally files, avoids event of default. Investors in Amkor Technology, the world's second-largest packager of semiconductors, received positive news on Monday when the company finally filed its second quarter results. However, the company remains under investigation by the SEC for its accounting treatment of options-related compensation. After missing several deadlines to file its quarterly statements, bondholders threatened to force the company to repay its debt as the delay constituted a covenant breach. After the filing, which recorded an extra \$106 million in executive compensation, Amkor's stock price rose 34% to \$6.76 and its 5-year CDS declined about 150 bps to 500 bps as of this morning.

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Court rules: File on time or default. In September, the New York Supreme Court ruled against BearingPoint Inc. and decided that bond holders were entitled to early repayment or concessions from the company as a result of missed financial reporting deadlines. The court ruled that BearingPoint, by missing its deadline, violated its covenants and defaulted on its obligation. The company is appealing the ruling as it claims that its obligation to report financial statements to bondholders was only contingent upon submitting earnings statements to the SEC. Quarterly filing delays as a result of SEC investigations, Sarbanes-Oxley or other complications are becoming more common. In August, UnitedHealth was notified of an event of default on its 4.875% notes due 2015 from bond holders as a result of a missed filing, even though the company is rated A2/A. The favorable ruling will likely lead to further speculation by hedge funds regarding which other companies might be forced into early repayment or concession to appease bondholders. However, the ongoing legal battles will likely leave most cases unresolved for some time.

II. Recent Pricing and Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Loomis Sayles CLO - I	10/6	\$400.00	Loomis Sayles	Loans	GS				
		296.00				A	Aaa/AAA/-	8.8	+23/3ML
		20.00				B	Aa2/AA/-	10.8	+40/3ML
		20.00				C	A2/A/-	11.1	+70/3ML
		21.00				D	Baa2/BBB/-	11.5	+160/3ML
		15.00				E	Ba2/BB/-	11.9	+385/3ML
		28.00				Sub	-/-	-	-
Silverton**	10/6	\$750.00	Braddock Financial	ABS	BarCap				
		541.25				A	-	-	Not Offered
		35.00				B-1	Aaa/AAA/-	8.0	+40/3ML
		75.00				B-2	Aaa/AAA/-	8.0	+45/3ML
		56.25				C	Aa2/AA/-	8.0	+54/3ML
		20.00				D	A2/A/-	8.0	+145/3ML
		17.50				E	Baa2/BBB/-	8.0	+345/3ML
		5.00				F	Ba1/BB+/-	8.0	+625/3ML
						PS	-/-	-	-
Dillon Read Capital Mgmt**	10/4	\$1,000.00	DRCM	CMBS	UBS				
		650.00				A1S	Aaa/AAA/AAA	-	-
		150.00				A1J	Aaa/AAA/AAA	-	+35/3ML
		60.00				A2	Aa2/AA/AA	-	+45/3ML
		41.25				A3	A2/A/A	-	+70/3ML
		12.50				A4	A3/A-/A-	-	+80/3ML
		28.75				B1	Baa2/BBB/BBB	-	+155/3ML
		11.25				B2	Baa3/BBB/BBB	-	+175/3ML
		8.75				B3	Ba1/BBB-/BBB-	-	+275/3ML
		10.00				B4	Ba2/BB/BB	-	-
		27.50				PS	-/-	-	-
Prospero - II	10/3	\$400.00	Rabobank	Loans	Rabo				
		80.00				A1-A	Aaa/AAA/-	8.5	+24/3ML
		Eur 64				A1-B	Aaa/AAA/-	8.5	+24/3ML
		GBP 10.5				A1-C	Aaa/AAA/-	8.5	+24/3ML
		100.00				A1-VFN	Aaa/AAA/-	8.5	+24/3ML
		30.00				A2	Aa2/AA/-	9.5	+42/3ML
		25.00				B	A3/A/-	10.5	+70/3ML
		15.00				C	Baa2/BBB/-	10.5	+150/3ML
		13.50				D	Ba2/BB/-	10.5	+395/3ML
		CAD 6.5				Sub	-/-	-	-
Apidos Quattro	10/2	\$350.50	Apidos Capital	Loans	MS				
		262.00				A	Aaa/AAA/-	8.3	+25/3ML
		21.00				B	Aa2/AA/-	10.6	+43/3ML
		16.00				C	A2/A/-	11.0	+73/3ML
		14.00				D	Baa2/BBB/-	11.5	+145/3ML
		12.00				E	Ba2/BB/-	12.0	+360/3ML
		25.50				Sub	-/-	-	-
Virgo 2006-1*	10/2	\$2,000.00	Vertical Capital	ABS	UBS				
		1,266.00				SS	Aaa/AAA/-	-	Not Offered
		275.00				A1	Aaa/AAA/-	6.77	+45/3ML
		157.00				A2	Aa2/AA/-	6.77	+53/3ML
		80.00				A3	A2/A/-	6.77	+145/3ML
		17.50				B1	Baa1/BBB+/-	6.77	+275/3ML
		74.50				B2	Baa2/BBB/-	6.77	+335/3ML
		20.00				B3	Baa3/BBB/-	6.77	+360/3ML
		110.00				PS	-/-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Alesco Preferred Funding XII	9/29	\$683.50	Cohen & Co.	TruPs	BS				
		10.00				X	Aaa/AAA/AAA	6.3	+35/3ML
		370.00				A1	Aaa/AAA/AAA	8.7	+32/3ML
		87.00				A2	Aaa/AAA/AAA	10.0	+40/3ML
		70.00				B	Aa2/-/AA	10.0	+60/3ML
		60.00				C1	A3/-/A-	10.0	+130/3ML
		10.00				C2	A3/-/A-	10.0	Fx 6.372%
		32.50				D	-/-/BBB	10.0	+275/3ML
		43.80				PS	-/-	-	-

New Pipeline	Size (mm)	Collateral Man.	Assets	Lead
G-Square Finance 2006-2 Ltd.	\$1,000.00	Wharton Asset Mgmt	ABS	DB
Aladdin Synthetic II*	-	Aladdin Capital Mgmt	CDS	GS
Pine Mountain CDO – II	\$500.00	Smith Breeden	RMBS	DB
Prima CRE Securitization 2006-1	\$557.00	Prima Capital Advisors	ABS	DB/LB
Hudson mezzanine Funding 2006-1	\$2,000.00	(static)	ABS	GS
Costa Bella CDO	\$425.00	PIMCO	ABS	ML
Ocean Trails CLO –I	\$350.00	Westgate Horizons Advisors	Loans	UBS
Telos CLO 2006-1	\$410.50	Tricadia Loan Mgmt	Loans	RBSGC
TABS 2006-5**	\$1,500.00	Tricadia CDO Mgmt	RMBS	UBS
RAIT CRE CDO I	\$1,000.00	RAIT Investment Trust	CRE	UBS
Beach Street 4*	\$400.00	(static)	Loans	CITG
Mountain View Funding 2006-2	\$411.00	Seix Advisors	Loans	SunTr
Freeport 2006-1	\$425.25	-	Loans	CITG

* denotes synthetic; ** denotes hybrid deals.

Source: MCM, IFR, Bloomberg

III. Spreads

Index Constituent	6-Oct	Last week	Moody's Rating	S&P's Rating
Fannie Mae	7	7	Aaa	AAA
Boeing	14	13	A2	A
IBM	15	17	A1	A+
Deere & Co	18	18	A3	A-
GE Capital	12	12	Aaa	AAA
AIG	10	10	Aa2	AA
Dow Chemical	20	20	A3	A-
Alcoa	20	20	A2	A-
CIT Group	26	27	A2	A
Duke Power Co	22	23	A3	BBB
McDonalds	15	16	A2	A
Walt Disney	17	17	A3	A-
Viacom	54	59	Baa3	BBB
Time Warner	40	42	Baa2	BBB+ /*-
Xerox Corp	91	89	Ba1	BB+
Altria Group	37	37	Baa2 /*+	BBB
Tyson Foods	105	111	Ba2	BB+
Ford Motor Credit	362	373	B3	B
GMAC	161	168	Ba1 /*-	BB /*
Carrefour	14	15	A2	A
AXA	12	13	A2	A
AKZO Nobel N V	25	26	A3	A-
Suez	13	13	A2 /*+	A- /*+
GUS PLC	48	42	Baa1	BBB+ /*-
Cadbury Schweppes PLC	34	35	Baa2	BBB
Renault	39	45	Baa1	BBB+
Brit Telecom PLC	44	44	Baa1	BBB+
Lafarge	40	42	Baa2	BBB
Deutsche Telekom AG	43	44	A3	A-
METRO AG	32	33	Baa2	BBB
France Telecom	36	36	A3	A-
Telecom Italia SpA	73	75	Baa2	BBB+ /*-
Volkswagen AG	28	28	A3	A-
DaimlerChrysler AG	61	64	Baa1 /*-	BBB
Telenor ASA	30	31	A2e	BBB+
Koninklijke Ahold N V	127	123	Ba1	BB

5Y CDS Index	6-Oct	Last week	Change
CDX.NA.IG 7	41.30	40.29	+1.01
CDX.NA.IG HVOL 7	86.82	86.77	+0.05
CDX.NA.XO 7	173.92	171.96	+1.96
CDX.NA.HY 7	325.56	324.99	+0.57
CDX.EM 6	162.22	147.91	+14.31
iTraxx Europe 6	30.38	30.20	+0.18
iTraxx Europe HVOL 6	57.25	57.43	-0.18
iTraxx Europe X-over 6	289.25	286.88	+2.37
iTraxx CJ Japan 6	25.13	24.82	+0.31
iTraxx Asia ex-Japan 6	61.66	61.56	+0.10
iTraxx Australia 6	33.25	31.25	+2.00
iTraxx SDI-75 3	34.89	35.13	-0.24
CDX IG 7 Widest	6-Oct		
Harrahs Oper Co Inc	248		
Starwood Hotels & Resorts ¹	133		
RadioShack Corp	123		
Toll Bros Inc	116		
R R Donnelley & Sons Co	110		
CDX IG 7 Tightest	6-Oct		
Fed Natl Mtg Assn	7		
Wells Fargo & Co	8		
Wal Mart Stores Inc	9		
Amern Intl Gp Inc	10		
Target Corp	12		
iTraxx Europe Widest	6-Oct		
ITV Plc	116		
Glencore Intl AG	102		
Valeo	88		
GKN Hldgs plc	74		
Telecom Italia SpA	73		
iTraxx Europe Tightest	6-Oct		
Royal Bk Scotland plc	6		
ABN AMRO Bk N V	6		
Barclays Bk plc	7		
SAN PAOLO IMI S p A	8		
Bca Intesa SpA	9		

Single-name CDS spreads are on a "XR" basis (without restructuring) for North America.
Source: Markit and Bloomberg

ABX.HE Index (as of October 6, 2006)				
	Price	Weekly change (bps)	Spread* (bps)	Coupon (bps)
ABX.HE.AAA.06-2	100.10	- 0.25	8.65	11
ABX.HE.AA.06-2	100.09	- 0.02	14.47	17
ABX.HE.A.06-2	99.68	+ 2.19	53.74	44
ABX.HE.BBB.06-2	99.02	+ 8.55	164.46	133
ABX.HE.BBB-.06-2	98.99	+ 4.52	275.35	242
CMBX.NA Index (as of October 6, 2006)				
	Spread	Weekly change (bps)	Coupon (bps)	
CMBX.NA.AAA.06-1	6.86	+ 0.10	10	
CMBX.NA.AA.06-1	14.64	- 1.87	25	
CMBX.NA.A.06-1	24.00	- 1.98	35	
CMBX.NA.BBB.06-1	57.00	- 7.00	76	
CMBX.NA.BBB-.06-1	92.00	- 11.56	134	

Source: Markit * assuming 35% CPR.
Source: Nomura Securities International

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