Nomura Fixed Income Research

NOMURA

CDO/CDS Update 08/14/06

I. Commentary

Following 17 consecutive rate increases, the FOMC decided to hold the federal funds target at 5.25%. The decision came as little surprise to the market, especially after weak economic numbers the previous week. Any gains from a mini-rally following the decision were erased by week-end, leaving credit spreads virtually unchanged for the week. It appears that issuers are racing to get deals done before the Labor Day weekend, with 18 CDOs bringing $11.9 billion to the market last week.

In North America, credit index spreads traded slightly wider, but within a narrow range of less than 2 bps. The CDX.NA.IG series 6 index widened 0.5 bps to end the week at 40.9 bps. The NA high volatility and crossover indices were wider by just under 2 bps each and closed Friday at 81.6 bps and 194.0 bps, respectively. Even the high yield index dodged spread volatility with widening of less than one basis point to 344.8 bps. The CDX emerging markets index moved to 138.6 bps, just 0.3 bps wider from last week. The iTraxx Europe series 5 tightened slightly by 0.7 bps to end the week at 30.1 bps. The Europe high volatility index also compressed, closing at 55.5 bps, or 1.4 bps tighter week-over-week. However, the Europe crossover index countered the tightening trend, as spreads widened 5.3 bps to 276.3 bps. In the ABX.HE series 2 index, the credit curve continued to flatten as BBB spreads tightened 6.5 bps to 117.9 bps, while the AAA and AA tranches were virtually unchanged for the week. The opposite occurred in the CMBX index, as BBB- spreads widened 1.2 bps to 108.8 bps, underperforming all other senior tranches.

Auto sector CDS spreads continue to improve. Although there has been no sign of a vehicle sales turnaround at Ford, a UAW official stated that the union is willing to discuss further restructuring plans and would consider working with a foreign producer. Ford also announced that details of its latest restructuring plan would be announced in September. Speculation continues to revolve around the possible sale of its Jaguar division. GM grabbed headlines with the announcement that its $89 billion U.S. pension obligation was cut by $3.9 billion after 34,400 workers agreed to leave the company. The company also estimates that it was able to reduce its $81 billion retiree health-care obligation by $19.3 billion from the job cuts. On an XR basis (without restructuring), GMAC 5-year CDS narrowed 13 bps to 195 bps, moving spreads to under 200 bps for the first time since December of 2004. Ford Motor Credit 5-year CDS narrowed 32 bps to 364 bps, a level not witnessed since October 2005.

2006H1 rating transitions show improvement. Last week, Moody's and Standard & Poor's released their updated rating transitions studies for the first half of 2006.[1] Both reports showed that worldwide structured security credit performance remained strong in the first six months of the year.

[1] Tung, J., J. Hu, R. Cantor and N. Weill, *Structured Finance Rating Transitions: 1983-2006 H1*, Moody's special comment (August 2006); Erturk, E. and T. Gillis, *Rating Transitions First-Half 2006: Global Structured Securities Continue to Exhibit Positive Credit Trends*, Standard & Poor's research (10 August 2006).

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Moody's placed the global structured finance upgrade-to-downgrade ratio at roughly 3.14x, inline with 2005's results, but ahead of the historical 1.0x average from 1983 to present. S&P's report provided similar results with an upgrade-to-downgrade ratio of 2.3x. Both agencies noted that the majority of credit improvement occurred in the CMBS and RMBS sectors due to the stable pool performance and increased credit support. For the 6-month period, home equity ABS performed the worst with downgrades outpacing upgrades. Over the first half of 2006, HELs accounted for 40% of all downgrades within global structured credit products, according to Moody's. CDOs continue to benefit from the strong performance of corporate, CMBS and RMBS collateral. Moody's 2006H1 CDO downgrade-to-upgrade ratio was roughly 1.0x, a major improvement from the 15x 10-year historical average. S&P highlighted the continued trend of spread tightening in structured finance as supportive of the market's anticipation for near-term improvement/stability.

Fitch outlook on MM CLOs strong. Fitch Ratings anticipates middle market (MM) CLOs to continue incorporating features of traditional CLOs (*i.e.* overcollateralization and interest coverage tests), which should provide stable ratings performance going forward.[2] Since the rating agency's review last year, 17 out of its 24 rated middle market CLO tranches have been upgraded. The upgrades are largely attributable to the sequential pay structure found in older vintages. According to Fitch, newer MM CLOs are more frequently using pro rata structures and reinvestment periods for collateral managers, which resulted in 65 ratings affirmations since last year. A replay of Fitch's August 9 conference call that discusses the changes to the MM CLO sector and details its rating methodology is available for replay until August 16.[3]

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[2] *Fitch: Outlook Continues to be Strong for U.S. Middle Market CLOs*, Fitch press release (7 Aug 2006) (http://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=278237).

[3] Replay information is available on the Fitch website at http://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=278972.

II. Recent Pricing & Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Wadsworth CDO	8/11	$1,200.00	Hartford Inv. Mgmt	HG ABS	MS				
		800.00				A-1A	Aaa/AAA/-	6.7	+21.7/3ML
		256.00				A-1B	Aaa/AAA/-	6.7	+25/3ML
		72.50				A02	Aaa/AAA/-	6.9	+39/3ML
		38.00				B	Aa2/AA/-	6.9	+46/3ML
		15.00				C	A2/A/-	6.9	+110/3ML
		8.25				D	Baa2/BBB	6.9	+310/3ML
		1.375				S1A	Ba1/BB+/-	8	+500/3ML
		4.2625				S1B	-	-	-
		4.6125				S2	-	-	-
Cairn Mezz ABS – I**	8/11	$500.00	Cairn Fin'l Products	Mezz ABS	MS				
		325.00				Senior	Aaa/AAA/-	-	-
		55.00				II	Aaa/AAA/-	7.3	+43/3ML
		49.00				III	Aa2/AA/-	7.7	+50/3ML
		11.00				IV	Aa3/AA-/-	8.0	+56/3ML
		13.00				V	A2/A/-	8.0	+120/3ML
		20.50				VI	Baa2/BBB/-	7.2	+295/3ML
		6.50				VII	Ba1/BB+/-	7.2	+600/3ML
		20.00				Sub Notes	-/-/-	-	-
MSC 2006-SRR1*	8/11	$620.00	(static)	CMBS	MS				
		186.00				SS	Aaa/AAA/-	-	Not Offered
		105.40				A1	Aaa/AAA/-	5.0	+28/1ML
		100.80				A2	Aaa/AAA/-	5.0	+38/1ML
		60.50				B	Aa2/AA/-	5.0	+50/1ML
		40.30				C	A2/A/-	5.0	+70/1ML
		21.70				D	Baa1/BBB+/-	5.0	+125/1ML
		12.40				E	Baa2/BBB/-	5.0	+160/1ML
		13.20				F	Baa3/BBB-/-	5.0	+200/1ML
		11.60				G	Ba1/BB+/-	5.0	275-300 /1mL
		12.40				H	Ba2/BB/-	5.0	375-400 /1ML
		10.90				J	Ba3/BB-	5.0	475-500 /1ML
		45.00				PS	-/-/-	-	Not Offered
Flagship CLO V	8/11	$500.00	Deutsche Asset Mgmt	Loans	GS				
		365.00				A	Aaa/AAA/-	9.0	+23/3ML
		33.75				B	Aa2/AA/-	11.0	+35/3ML
		22.50				C	A2/A/-	11.2	+70/3ML
		17.50				D	Baa2/BBB/-	11.6	+155/3ML
		22.50				E	Ba2/BB/-	11.9	+375/3ML
		38.75				Sub	-/-/-	-	-
Cap. Source Advisors CLO	8/10	$325.00	CS Advisors	Loans	JPM				
		231.00				A1	Aaa/AAA/-	-	+25/3ML
		7.75				A2A	Aa2/AA/-	-	+40/3ML
		3.25				A2B	Aa2/AA/-	-	Fx 5.876%
		21.00				B	A2/A/-	-	+70/3ML
		17.00				C	Baa2/BBB/-	-	+155/3ML
		14.00				D	Ba2/BB/-	-	+400/3ML
		31.00				Sub Notes	-/-/-	-	-

Octagon – X	8/10	$450.00	Octagon Crdt Inv	Loans	WS/ Bear				
		281.25				A1	Aaa/AAA/-	8.89	+24/3ML
		$45.00				A2	Aaa/AAA/-	8.89	-
		38.25				B	Aa2/AA/-	10.19	+38/3ML
		24.75				C	A2/A/-	10.47	+65/3ML
		19.13				D	Baa2/BBB/-	10.7	+140/3ML
		17.45				E	Ba2/BB/-	10.9	+340/3ML
		39.28				Inc	-/-/-	-	-
MKP CBO VI	8/10	$300.00	MKP Capital Mgmt	Bonds	CS				
		184.00				A1	Aaa/AAA/-	6.15	+30/3ML
		41.00				A2	Aaa/AAA/-	6.15	+44/3ML
		46.00				B	Aa2/AA/-	6.15	+50/3ML
		4.00				C	A2/A/-	6.15	+130/3ML
		10.00				D	Baa2/BBB/-	5.83	+320/3ML
		15.75				Equity	-/-/-	-	-
Apidos CDO IV	8/10	$350.00	Apidos Col. Mgmt	Loans	MS				
		174.50				A1	Aaa/AAA/-	8.2	+25/3ML
		87.50				A2	Aaa/AAA/-	8.2	+25/3ML
		20.00				B	Aa2/AA/-	10.6	+41/3ML
		16.00				C	A2/A/-	11.0	+75/3ML
		14.00				D	Baa2/BBB/-	11.5	+150/3ML
		11.00				E	Ba2/BB/-	12.0	+360/3ML
		27.00				Sub Notes	-/-/-	-	-
Carlyle (CHYP) IX CLO	8/10	$500.00	Carlyle Inv Mgmt	Loans	LB				
		167.50				A1	Aaa/AAA/-	9.7	+24/3ML
		165.00				A2	Aaa/AAA/-	9.5	+22/3ML
		41.25				A3	Aaa/AAA/-	10.0	+33/3ML
		26.25				B	Aa2/AA/-	10.3	+40/3ML
		26.25				C	A2/A/-	10.3	+67/3ML
		32.50				D	Baa2/BBB/-	10.3	+160/3ML
Baker St CLO 2006-1	8/10	$400.00	-	Loans	Sun-Trust				
		270.00				A1	Aaa/AAA/AAA	8.0	+25/3ML
		30.00				A2 (revl)	Aaa/AAA/AAA	8.0	+28/3ML
		20.10				B	Aa2/AA/AA	10.0	+43/3ML
		21.00				C	A2/A/A	10.0	+73/3ML
		15.90				D	Baa2/BBB/BBB	10.0	+170/3ML
		12.00				E	Ba2/BB/BB	10.0	+395/3ML
		31.00				Equity	-/-/-	10.0	-
Navigator CDO 2006	8/10	$400.00	GE Asset Mgmt	Loans	BAS				
		265.00				A - funded	Aaa/AAA/-	8.8	+25/3ML
		40.00				A - revl	Aaa/AAA/-	8.8	-
		26.00				B	A2/A/-	10.0	+72/3ML
		10.00				B1 – combo	A3/-/-	10.0	-
		15.50				C	Baa2/BBB/-	10.0	+150/3ML
		12.50				D	Ba2/BB/-	10.0	+350/3ML
		31.00				Subs	-/-/-	-	-

Abacus 2006-13*	8/9	$795.00	(static)	CMBS	GS				
		453.15				SS	-/-/	-	-
		159.00				A	Aaa/AAA/AAA	9.5	+34/1ML
		44.72				B	Aa1/AA+/AA+	9.8	+43/1ML
		10.93				C	Aa2/AA/AA	10	+46/1ML
		11.93				D	Aa3/AA-/AA-	10	+50/1ML
		11.93				E	A1/A+/A+	10	+65/1ML
		11.93				F	A2/A/A	10	+70/1ML
		7.95				G	A3/A-/A-	10.3	+80/1ML
		11.93				H	Baa1/BBB+/BBB+	11.1	+130/1ML
		9.94				J	Baa2/BBB/BBB	11.2	+160/1ML
		8.94				K	Baa3/BBB-/BBB-	11.7	+190/1ML
		9.94				L	Ba1/BB+/BB+	11.9	-
		7.95				M	Ba2/BB/BB	12.3	-
		5.96				N	Ba3/BB-/BB-	12.4	-
		4.97				O	B1/B+/B+	12.8	-
		5.96				P	B2/B/B	13.5	-
		1.99				Q	B3/B-/B-	13.5	-
		15.90				FL	-/-/-	14.2	-
BlackRock Senior Income Series 3	8/9	$309.00	Blackrock Fin. Mgmt	Loans	ML				
		217.10				A	Aaa/AAA/-	10.0	Not Offered
		8.60				B	Aa2/AA/-	10.0	+40/6ML
		9.90				C	A2/A/-	10.0	+70/6ML
		16.40				D	Baa2/BBB/-	10.0	+160/6ML
		5.30				E	Ba2/BB/-	10.0	+400/6ML
		51.90				Pref	-/-;-	-	-
Fortress Crdt Fund III	8/9	$1,050.00	Fortress Inv. Grp.	Loans	CITG				
		573.00				A1A (revl)	Aaa/-/-	-	+34/1ML
		30.00				A1B (term)	Aaa/-/-	-	+31/1ML
		67.00				A2	Aa1/-/-	-	+48/1ML
		109.00				A3	Aa2/-/-	-	+68/1ML
		66.00				B	A2/-/-	-	+110/1ML
		20.500				Inc Notes	-/-/-	-	-
E*Trade ABS CDO V	8/9	$300.00	ETGAM	Mezz ABS	UBS				
		201.00				A1S	Aaa/AAA/-	-	-
		35.00				A1J	Aaa/AAA/-	-	-
		20.00				A2	Aa2/AA/-	-	+50/3ML
		16.00				A3	A2/A/-	-	+130/3ML
		13.00				B	Baa2/BBB/-	-	+310/3ML
		4.00				C	Ba2/BB/-	-	+625/3ML
		11.00				PS	-/-/-	-	19%
Oak Hill (3 series)	8/8	$2,500.00	Oak Hill Partners	(market value)	JPM				
		800.50				A-1	Aaa/AAA/-	-	+31/3ML
		762.50				A-2	Aaa/AAA/-	-	+35/3ML
		156.75				B	Aa2/AA/-	-	+40/3ML
		156.50				C	A2/A/-	-	+70/3ML
		124.75				D	-/BBB/-	-	+150/3ML
		500.25				Equity	-/-/-	-	-

ESP Funding I	8/8	$1,000.00	Elliott Struct. Prod.	HG ABS	CITG				
		750.00				A-1	Aaa/AAA/-	7.3	-
		100.00				A-2	Aaa/AAA/-	7.3	+40/1ML
		90.00				A-3	Aaa/AAA/-	7.3	+46/1ML
		27.00				A-4	Aa2/AA/-	7.3	+50/1ML
		15.00				B	A2/A/-	7.3	+150/1ML
		10.00				C	Baa2/BBB/-	7.3	+325/1ML
		13.50				Inc Notes	-/-/-	-	-
Sorin RE CDO IV	8/8	$400.00	Sorin Capital Mgmt	CRE	CITG /LB				
		251.60				A-1	Aaa/AAA/-	6.0	-
		18.90				A-2	Aaa/AAA/-	6.0	+30/3ML
		6.10				A-3	Aa1/AAA/-	6.0	+34/3ML
		11.40				B	Aa2/AA/-	7.0	+39/3ML
		27.40				C	A1/A+/-	7.0	+53/3ML
		10.00				D	A3/A-/-	8.0	+72/3ML
		9.00				E	Baa1/BBB+/-	8.0	+115/3ML
		12.00				F	Baa3/BBB-/-	8.0	+165/3ML

New Pipeline	Size (mm)	Collateral Man.	Assets	Lead
Northwoods VII	$500.00	Angelo, Gordon & Co.	Loans	LB
Plymouth Rock*	$1,000.00	Vanderbilt Cap Adv	Corp	BAS
Abacus 2006-13*	$795.00	-	CMBS	GS
Rockville CDO I	$1,200.00	Petra Capital	-	ML
Libra CDO	$1,500.00	LBAM	-	LB

* denotes synthetic; ** denotes hybrid deals.
Source: MCM, IFR, Bloomberg

III. Spreads

Index Constituent	11-Aug	Week Ago	Moody's Rating	S&P's Rating
Fannie Mae	7	7	Aaa	AAA
Boeing	15	15	A2	A
IBM	19	19	A1	A+
Deere & Co	21	21	A3	A-
GE Capital	14	15	Aaa	AAA
AIG	14	15	Aa2	AA
Dow Chemical	24	24	A3	A-
Alcoa	21	22	A2	A-
CIT Group	27	28	A2	A
Duke Energy	26	27	A3	BBB
McDonalds	14	14	A2	A
Walt Disney	19	19	A3	A-
Viacom	61	64	Baa3	BBB
Time Warner	50	51	Baa2	BBB+ /*-
Computer Associates	125	127	Ba1	BB
Altria Group	34	35	Baa2 /*+	BBB
Tyson Foods	109	111	Ba1	BBB-
Ford Motor Credit	364	396	B2	B+
GMAC	195	208	Ba1 /*-	BB /*
Carrefour	17	17	A2	A
AXA	18	18	A2	A
AKZO Nobel N V	26	23	A3	A-
Suez	18	18	A2 /*+	A- /*+
GUS PLC	35	34	Baa1 /*-	BBB+ /*-
Cadbury Schweppes PLC	34	35	Baa2	BBB
Renault	36	38	Baa1	BBB+
Brit Telecom PLC	47	49	Baa1	BBB+
Lafarge	41	42	Baa2	BBB
Deutsche Telekom AG	42	41	A3	A-
METRO AG	35	36	Baa2	BBB
France Telecom	35	35	A3	A-
Telecom Italia SpA	54	54	Baa2	BBB+
Volkswagen AG	24	26	A3	A-
DaimlerChrysler AG	52	56	A3	BBB
VNU	486	526	Caa1	CCC+
Koninklijke Ahold N V	135	133	Ba1	BB

5Y CDS Index	11-Aug	Week Ago	Change
CDX.NA.IG 6	40.93	40.41	+0.52
CDX.NA.IG 6 HVOL	81.56	79.64	+1.92
CDX.NA.IG XOVER	193.97	192.44	+1.53
CDX.NA.HY 6	344.81	344.07	+0.74
CDX.EM 5	138.62	138.29	+0.33
iTraxx Europe 5	30.06	30.72	-0.66
iTraxx Europe HVOL	55.50	56.87	-1.37
iTraxx Europe X-over	276.25	270.93	+5.32
iTraxx CJ Japan 5	27.90	28.00	-0.10
iTraxx Asia ex-Japan	56.00	58.25	-2.25
iTraxx Australia	27.67	28.12	-0.45
iTraxx SDI-75 2	37.51	38.06	-0.55

CDX Widest	11-Aug
SUPERVALU INC	204
Jones Apparel Gp Inc	164
RadioShack Corp	135
Tribune Co	128
Wendys Intl Inc	126
CDX Tightest	**11-Aug**
Fed Natl Mtg Assn	7
Wells Fargo & Co	8
Wal Mart Stores Inc	10
Target Corp	13
Amern Intl Gp Inc	14
iTraxx Widest	**11-Aug**
Portugal Telecom Intl Fin E	173
ITV Plc	129
Degussa AG	113
Glencore Intl AG	104
Valeo	71
iTraxx Tightest	**11-Aug**
Nestle S A	5
ABN AMRO Bk N V	7
Royal Bk Scotland plc	7
Barclays Bk plc	8
SAN PAOLO IMI S p A	9

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

ABX.HE Index (as of August 11, 2006)				
	Price	Weekly change (bps)	Spread* (bps)	Coupon (bps)
ABX.HE.AAA.06-2	100.09	0.00	8.90	11
ABX.HE.AA.06-2	100.09	- 0.01	14.57	17
ABX.HE.A.06-2	100.08	- 2.06	41.65	44
ABX.HE.BBB.06-2	100.49	- 6.52	117.87	133
ABX.HE.BBB-.06-2	100.74	- 1.39	218.52	242
CMBX.NA Index (as of August 11, 2006)				
	Spread	Weekly change (bps)	Coupon (bps)	
CMBX.NA.AAA.06-1	6.50	+ 0.22	10	
CMBX.NA.AA.06-1	17.93	+ 0.12	25	
CMBX.NA.A.06-1	27.36	- 1.02	35	
CMBX.NA.BBB.06-1	63.64	- 0.36	76	
CMBX.NA.BBB-.06-1	108.79	+ 1.17	134	

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

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