

Analytical Speaking

Are global securitisation markets reviving?



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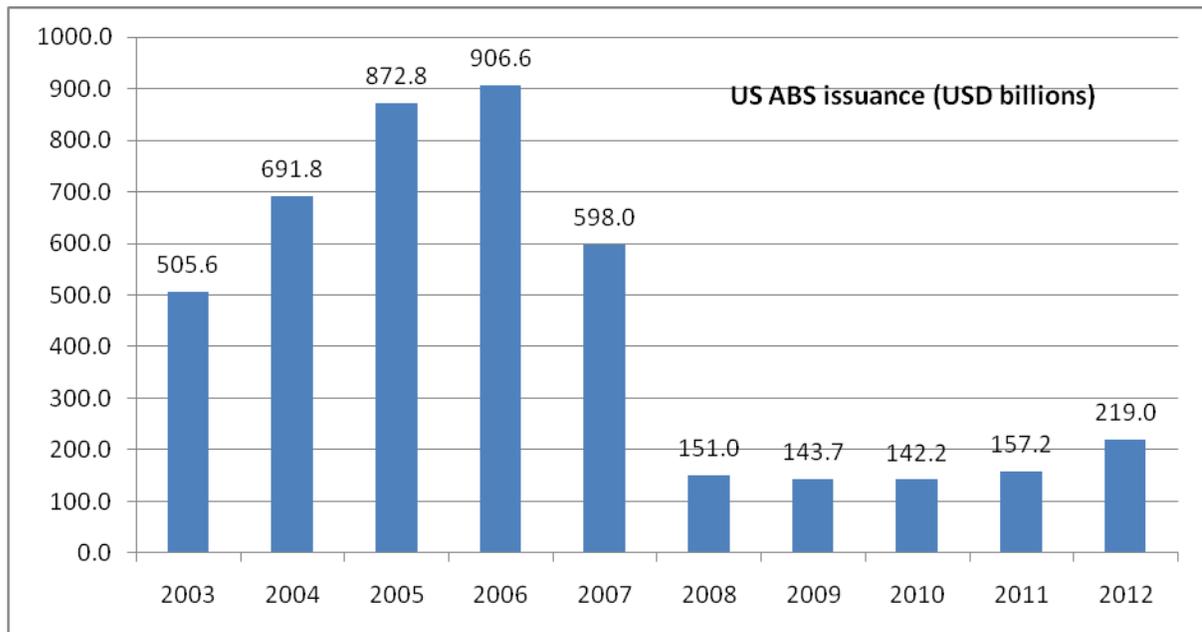
This write up is intended to initiate academic debate on a pertinent question. It is not intended to be a professional advice and should not be relied upon for real life facts.



Are global securitisation markets reviving?

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Till 2012, this question seemed purely like someone trying to derive a false sense of self-comfort. However, there are clear signs of cyclical revival of securitisation, and it would not be long before structured finance teams in i-banks once again get reorganized, and back into the slicing and dicing game. It may revive in different forms – be it in form of covered bonds, or other forms of asset-backed paper, but it is inevitable that as lending picks up substantially, securitisation is bouncing back. 2012 volumes provide muted signals of the undercurrents of revival. The graph below shows US ABS issuance:



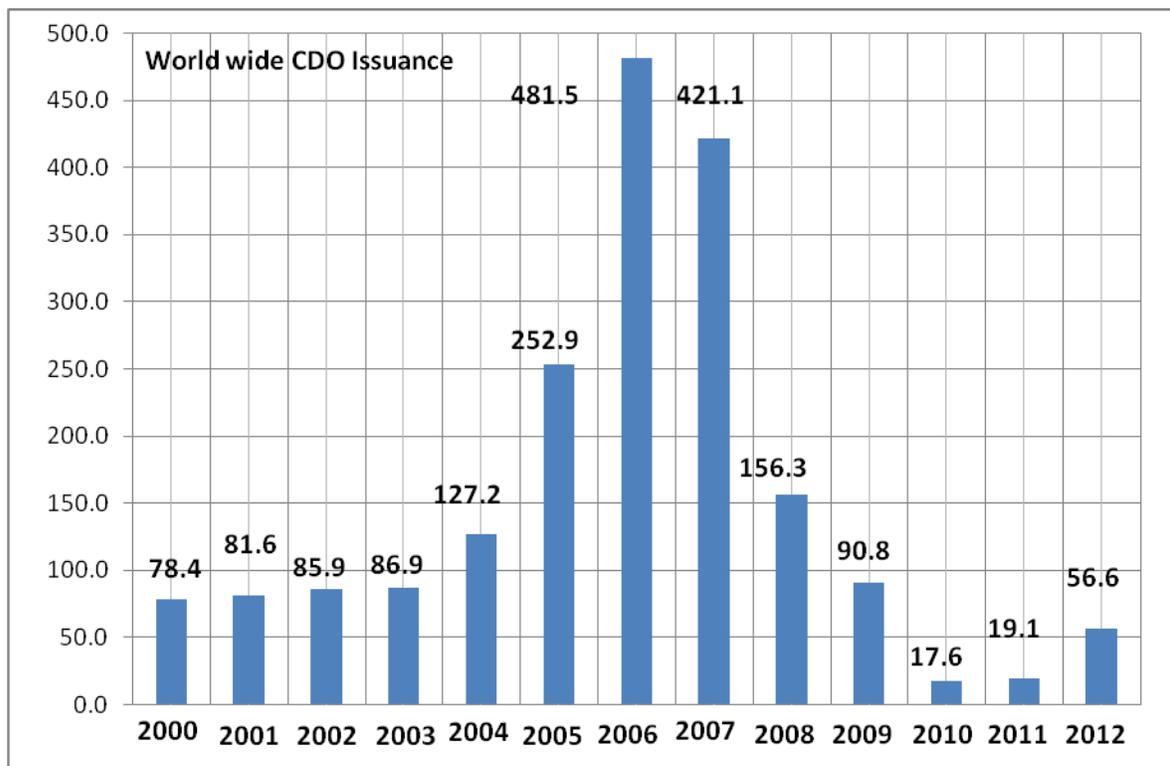
Source: Compiled by author from www.abalert.com

As may be observed, the volumes in 2012 were a good \$ 50 billion higher than that of 2011. Of course, we are nowhere even close to 2006, but that is a peak that we may never reach, and in fact, we should never reach that volume. In fact, in some sectors, the volumes in 2012 were almost the same as in 2006 – auto ABS is a particular example. In case of some asset classes, say, equipment finance or equipment lease securitisations, the volumes in 2012 are even higher than what it was in 2006. Credit card ABS, one of the most common forms of ABS, has also reached more than half of the volumes seen in 2006.



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European markets:

2013 was a strong start for the European market as well. A research paper by Unicredit¹ speaks of strong interest in auto ABS from European market.

The 2012 volumes for publicly offered ABS in Europe were reported around Euro 66 billion, which is lower than 2011. It is important to note that European markets have been having, for a few years now, a phenomenon of issuance to central banks, which have been providing liquidity to securitisation markets. About 59% of 2012 transactions were RMBS, while traditionally, European issuance has been mostly towards retail ABS or CDOs/CLOs.

In 2013, analysts are expecting a return of leveraged loan CLOs. One of the first leveraged loan CLOs over several years now is a deal called Cairn CLO III, brought by Cairn Capital. This CLO was marketed in Feb 2013².

On the whole, looking at both the US and European markets, there are clear signs of revival.

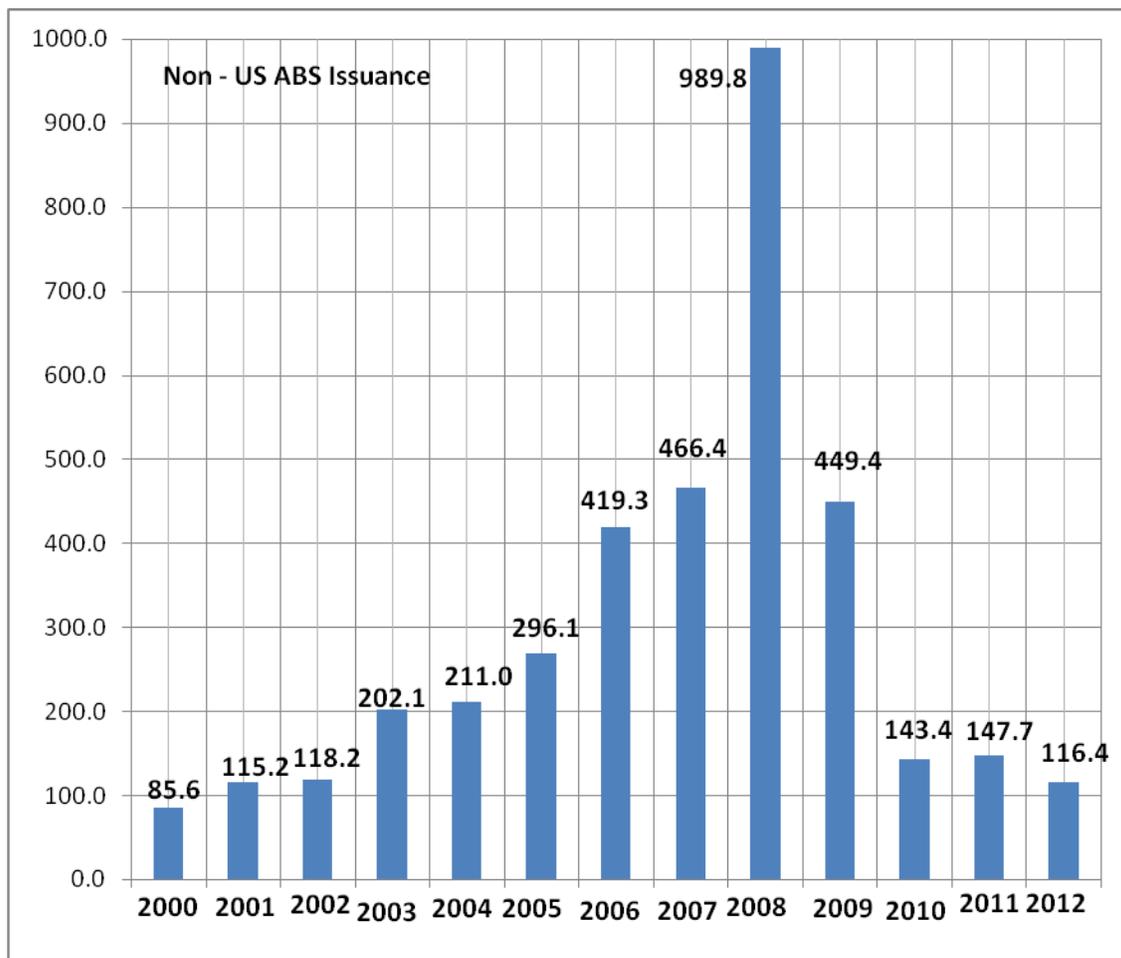
¹ http://www.xaia.com/uploads/media/Securitization_Guide_2013_Carry_On_.pdf

² <http://www.businessweek.com/news/2013-02-20/cairn-capital-sells-first-european-clo-transaction-since-2011>



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New asset classes:

Certain new securitisation asset classes clearly seem to be emerging. Renewable energy cashflows securitisation seems to be an interesting asset class. In the meantime, we have commented on [SME-covered bonds](#) separately.

In conclusion, it may not be heady days of securitisation seen in 2004-2006 period, but we are slowly moving towards a revival of structured finance markets.

For more on securitisation click [here](#).