
From: jeffrey E. <jeevacation@gmail.com>
Sent: Tuesday, January 6, 2015 2:18 AM
To: Daniel Sabba
Subject: Re: Fw: Fwd:(BFW) CLO: Market on Stronger Footing in 2015 as Questions Linger

looking forward to the back test of proposed trades

On Mon, Jan 5, 2015 at 10:07 PM, Daniel Sabba <[REDACTED]> wrote:

Classification: Public

Collateralized loan obligation trading commentary.

----- Original Message -----

From: "Daniel Sabba (DEUTSCHE BANK SECURITIES)" <[REDACTED]>
Sent: 01/06/2015 02:02 AM GMT
To: undisclosed-recipients:
Subject: Fwd:(BFW) CLO: Market on Stronger Footing in 2015 as Questions Linger

--- Original Sender: RICHARD RIZZO, DEUTSCHE BANK SECURITIES ---

----- Original Message -----

From: RICHARD RIZZO (DEUTSCHE BANK SECURITIES)
At: Jan 5 2015 12:20:42

(BFW) CLO: Market on Stronger Footing in 2015 as Questions Linger
- see attached

From my viewpoint - still unclear picture of direction of CLO spreads and issuance

Positives for CLO market

- Q1 historically brings out buyers while new issue takes time to get going - this has been historically good for existing CLO spreads.

- Risk retention is now on table and visible - may have effect of reducing supply now, also good for spreads.

- Lower long US rates and increasing likelihood of Fed hikes in short term rates should help CLO debt in relative attractiveness vs loans and CMBS and other debt products

- Volcker compliance extensions for banks on AAA CLOs mean not likely to see massive AAA CLOs for sale in 2015.

- With loan spread easing and 2.0 AAA/AA CLOs not widening much (some not C2 at all) in Q4, the new issue 'arb' appears to be alive. This can be viewed as positive or negative for CLO spreads though.

Negatives

- Volcker is not solved/extended for dealer market making. Dealers may or may not be able to bid/offer CLOs that are not compliant after July 2015 - ie AAA and equity tranches in deals with bonds are most problematic.
- Macro and geopolitical pressures are numerous with the most direct impact on CLOs loans being oil related issuer stress and highly negative retail loan outflows.
- We may get large new issue supply this January vs other years as many deals originally for Nov/Dec 2014 were pushed to 2015 during Q4 turbulence.

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CLO: Market on Stronger Footing in 2015 as Questions Linger
2015-01-05 15:16:23.880 GMT

By Christopher DeReza

(Bloomberg) -- CLO market set to start 2015 on notably stronger ground than last year, when activity paused amid

uncertainty over Volcker rule, which was finalized in Dec. 2013.

- * Only \$2.5b priced in January 2014
- * Effort of getting new deals Volcker compliant "didn't turn out to be as much of a hurdle as people thought," Kevin Egan, a senior PM at Invesco, said during phone interview
- * Egan also said:
 - * There's clarity on what managers have to retain (given final retention rule published in Federal Register Dec. 24); there's ambiguity on what form assets will take, as "a lot of vehicles and structures are being

- * Managers may try to print deals before rule takes effect

remainder of stack unaffected

- * Oil prices overall won't have "tremendous impact; 1 or 2 companies on investors' radar for bankruptcy
- * While leverage has risen, 1Q through 3Q levels "are pretty much flat" after 4 yrs of steady increases
- * While leverage has risen, 1Q through 3Q levels "are pretty much flat" after 4 yrs of steady increases
- * Month-by-month issuance, according to data compiled by BofAML analysts Chris Flanagan, Ryan Asato, Collin Chan, as of Dec. 19
 - * Month, BSL, Middle-Market, Total
 - * Jan., \$2.55b, \$0, \$2.55b
 - * Feb., \$7.686b, \$731m, \$8.417b
 - * March, \$11.41b, \$309m, \$11.719b
 - * April, \$10.823b, \$1.682b, \$12.505b
 - * May, \$10.912b, \$403m, \$11.315b

- * June, \$12.524b, \$559m, \$13.083b
- * July, \$13.994b, \$0, \$13.994
- * Aug., \$10.949b, \$358m, \$11.307
- * Sept., \$7.006b, \$713m, \$7.719m
- * Oct., \$10.048b, \$1.078b, \$11.126b
- * Nov., \$10.525b, \$761m, \$11.286
- * Dec., \$8.301b, \$407m, \$8.708m
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- * 2014 BSL, middle-market issuance, as of Dec. 19, totals \$123.729b; compares with \$81.94b in 2013
- * 2014 BSL, middle-market issuance, as of Dec. 19, totals \$123.729b; compares with \$81.94b in 2013
- * While issuance in 2015 is expected to be lower, forecasts of \$70b to \$110b are still described as strong

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